Utilities Services of South Carolina, Inc. Docket No. 2007-286-W/S

BEFORE THE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

EXHIBITS

TO ACCOMPANY THE

PREPARED DIRECT TESTIMONY

OF

PAULINE M. AHERN, CRRA PRINCIPAL AUS CONSULTANTS

ON BEHALF OF
UTILITIES SERVICES OF SOUTH CAROLINA, INC.
NOVEMBER 2007



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<u>Utilities Services of South Carolina, Inc.</u> Summary of Cost of Capital and Fair Rate of Return Based on the Actual Consolidated Capital Structure of Utilities, Inc. at December 31, 2006

Type of Capital	Ratios (1)	Cost Rate	Weighted C	Cost Rate
Total Debt	59.83%	6.60%	3.84%	3.84%
Common Equity	40.17%	11.40% - 12.00% (2)	4.58%	4.82%
Total	100.00%		8.42% -	8.66%

⁽¹⁾ From Exhibit B, Page 5 of the Application of Utilities Services of South Carolina, Inc.. for adjustment of rates and charges for the provision of water and sewer service and modification of rate schedules.

⁽²⁾ Based upon informed judgment from the entire study, the principal results of which are summarized on page 2 of this Schedule.

<u>Utilities Services of South Carolina, Inc.</u> Brief Summary of Common Equity Cost Rate

N.	Principal Methods	Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
<u>No.</u>	Principal Methods	Video Companios	
1.	Discounted Cash Flow Model (DCF) (1)	9.8 %	10.1 %
2.	Risk Premium Model (RPM) (2)	10.8	11.0
3.	Capital Asset Pricing Model (CAPM) (3)	10.2	10.5
4.	Comparable Earnings Model (CEM) (4)	14.3	14.2
5.	Indicated Range of Common Equity Cost Rate before Adjustment for Business Risk	10.80 %	11.40 %
6.	Business Risk Adjustment (5)	0.30	0.30
7.	Indicated Range of Common Equity Cost Rate after Adjustment for Business Risk	11.10 %	11.70 %
8	Financial Risk Adjustment (6)	0.30	0.30
9.	Recommended Range of Common Equity Cost Rate after Adjustment for Business and Financial Risk	<u>11.40</u> %	<u>12.00</u> %

Notes: (1) From Schedule PMA-5 of this Exhibit.

- (2) From page 1 of Schedule PMA-10 of this Exhibit.
- (3) From page 1 Schedule PMA-11 of this Exhibit.
- (4) From pages 2 and 5 of Schedule PMA-12 of this Exhibit.
- (5) Business risk adjustment to reflect Utilities Services of South Carolina, Inc.'s greater business risk due to its small size relative to each proxy group as detailed in Ms. Ahern's accompanying direct testimony.
- (6) Financiel risk adjustment to reflect Utilities Services of South Carolina, Inc.'s greate financial risk relative to each proxy group as detailed in Ms. Ahern's accompanying direct

<u>Utilities Services of South Carolina, Inc.</u> Derivation of Investment Risk Adjustment Based upon Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

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<u>5</u>

Line No	<u>).</u>	 al Capitaliza Debt) for millions)		act. Short-Term ear 2006 (times larger)		ation on July 10, 7 (1) (times larger)	Applicable Decile of the NYSE/AMEX/ NASDAQ	Applicable Siz Premium	e 	Spread from Applicable Size Premium (2)
1.	Utilities Services of South Carolina, Inc. Based upon the Proxy Group of Eight AUS Utility	\$ 6.591	(3)							
Α.	Reports Water Companies				\$ 14,988		10 (4)	6.27%	(5)	
В.	Based upon the Proxy Group of Four Value Line (Standard Edition) Water Companies				\$ 15.074		10 (4)	6.27%	(5)	
2.	Proxy Group of Eight AUS Utility Reports Water Companies	\$ 555.480	(6)	84.3 ×	\$ 710.535	47.4 x	8 - 9 (7)	2.49%	(8)	3.78%
3.	Proxy Group of Four Value Line (Standard Edition) Water Companies	\$ 898.745	(9)	136.4	\$ 1,158.741	76.9	7 (10)	1.62%	(11)	4.65%

		Recent Total	Recent
	Number of	Market	Average
Decile	Companies	Capitalization (10)	Market
		(millions)	(millions)
1 - Largest	168	\$9,586,846.750	\$57,064.564
2	179	2,148,609.950	12,003.408
3	198	1,126,434.240	5,689.062
4	184	624,621.080	3,394.680
5	209	492,840.110	2,358.087
6	264	428,711.640	1,623.908
7	291	333,661.890	1,146.604
8	355	284,415.720	801.171
9	660	298,400.730	452.122
10 - Smallest	1744	229,218.310	131.433

See page 4 for notes.

Exhibit No. Schedule PMA-1
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<u>Utilities Services of South Carolina, Inc.</u> Derivation of Investment Risk Adjustment Based upon Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE

Notes:

- (1) From page 5 of this Schedule.
- (2) Line No. 1 -- Line No. 2 and Line No. 1 -- Line No. 3 of Columns 3 and 4, respectively. For example, the 3.78% in Column 5, Line No. 2 is derived as follows 3.78%% = 6.27% 2.49%.
- (3) Company provided.
- (4) With an estimated market capitalization of \$14.988 million (based upon the proxy group of eight AUS Utility Reports water companies) and \$15.074 million (based upon the proxy group of four Value Line (Standard Edition) water companies), Utilities Services of South Carolina, Inc. falls in the 10th decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$131.433 as shown in the table on the bottom half of page 3 of this Schedule.
- (5) Size premium applicable to the 10th decile of the NYSE/AMEX/NASDAQ as shown on page 15 of this Schedule.
- (6) From page 1 of Schedule PMA-3.
- (7) With an estimated market capitalization of \$710.535million, the proxy group of eight AUS Utility Reports water companies falls between the 8th and 9th deciles of the NYSE/AMEX/NASDAQ which have an average market capitalization of \$626.647 million as can be gleaned from the information shown in the table on the bottom half of page 3 of this Schedule.
- (8) Average size premium applicable to the 8th and 9th deciles of the NYSE/AMEX/NASDAQ as can be gleaned from the information shown on page 15 of this Schedule.
- (9) From page 1 of Schedule PMA-4.
- (10) With an estimated market capitalization of \$1,158.741 million, the proxy group of four Value Line (Standard Edition) water companies falls in the 7th decile of the NYSE/AMEX/NASDAQ which has an average market capitalization of \$1,146.604 million as shown in the table on the bottom half of page 3 of this Schedule.
- (11) Size premium applicable to the 7th decile of the NYSE/AMEX/NASDAQ as shown on page 15 of this Schedule.

Utilities Services of South Carolina, Inc.

Market Capitalization of Utilities Services of South Carolina, Inc. the Proxy Group of Eight AUS Utility Reports Water Companies and the the Proxy Group of Four Value Line (Standard (Edition) Water Companies

Company	Common Stock Shares Outstanding at March 31, 2007 (millions)	Share a	Value per at March 31, 307 (1)	Equity 31	Common y at March , 2007	Marke	ing Stock et Price on 10, 2007	Market-to-Book Ratio at July 10. 2007 (2)	July	Market sitalization on 10, 2007 (3) millions
Utilities Services of South Carolina, Inc.	<u>NA</u> (4)		NA	\$	6.591 (4)		NA_	227.4_% (5)	\$	14.988 (6)
Based upon the Proxy Group of Eight AUS Utility Reports Water Companies										
Based upon the Proxy Group of Four Value Line (Standard Edition) Water Companies								228.7 % (7)	\$	15.074 (8)
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, Inc. Artesian Resources Corp. California Water Service Group Connecticut Water Service Inc. Middlesex Water Company SJW Corp. York Water Company Average	17.055 133.261 6.273 20.659 8.304 13.168 18.312 11.218	\$	16.847 6.965 14.659 18.100 11.928 9.806 12.435 5.854 12.074	\$	287.319 928.164 91.958 373.930 99.049 129.121 227.707 65.872 275.365	\$	35.260 22.280 19.200 36.690 24.580 18.860 31.970 17.610 25.806	209.3 % 319.9 131.0 202.7 206.1 192.3 257.1 300.8	\$	601.359 2,969.055 120.442 757.979 204.112 248.348 585.435 197.549 710.535
Proxy Group of Four Value Line (Standard Edition) Water Companies American States Water Co. Aqua America, Inc. California Water Service Group	17.055 133.261 20.659	\$	16.847 6.965 18.100	\$	287.319 928.164 373.930	\$	35.260 22.280 36.690 12.760	209.3 % 319.9 202.7 182.9	ş	601.359 2,969.055 757.979 306.572
Southwest Water Company	24,026 48,750	\$	6.977 12.222	\$	167.641 439.264	\$	26.748	228.7 %	\$	1,158.741

NA = Not Available

- Notes: (1) Column 3 / Column 1.
 - (2) Column 4 / Column 2.
 - (3) Column 5 * Column 3.
 - (4) Company-provided at June 30, 2007
 - (5) The market-to-book ratio of Utilities Services of South Carolina, Inc. at July 10, 2007 is assumed to be equal to the average market-to-book ratio at July 10, 2007 of the proxy group of eight AUS Utility Reports water companies.

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- (6) Utilities Services of South Carolina, Inc.'s common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at July 10, 2007 of the proxy group of eight AUS Utility Reports water companies, 227.4%, and Utilities Services of South Carolina, Inc.'s market capitalization at July 10, 2007 would therefore have been \$14.988 million. (\$14.988 = \$6.591 * 227.4%).
- (7) The market-to-book ratio of Utilities Services of South Carolina, Inc. at July 10, 2007 is assumed to be equal to the average market-to-book ratio at July 10, 2007 of the proxy group of four Value Line (Standard Edition) water companies.
- (8) Utilities Services of South Carolina, inc.'s common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio at July 10, 2007 of the proxy group of four Value Line (Standard Edition) water companies, 228.7%, and Utilities Services of South Carolina, Inc.'s market capitalization at July 10, 2007 would therefore have been \$15.074 million. (\$15.074 = \$6.591 * 228.7%).

Exhibit No. Schedule PMA-1 Page 6 of 18

Stocks, Bonds, Bills, and Inflation

Market Results for 1926–2006

2007 YearbookValuation Edition



Chapter 7

Firm Size and Return

The Firm Size Phenomenon

One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies, which have higher returns on average than larger ones. Many studies have looked at the effect of firm size on return. In this chapter, the returns across the entire range of firm size are examined.

Construction of the Decile Portfolios

The portfolios used in this chapter are those created by the Center for Research in Security Prices (CRSP) at the University of Chicago's Graduate School of Business. CRSP has refined the methodology of creating size-based portfolios and has applied this methodology to the entire universe of NYSE/AMEX/NASDAQ-listed securities going back to 1926.

The New York Stock Exchange universe excludes closed-end mutual funds, preferred stocks, real estate investment trusts, foreign stocks, American Depository Receipts, unit investment trusts, and Americus Trusts. All companies on the NYSE are ranked by the combined market capitalization of their eligible equity securities. The companies are then split into 10 equally populated groups, or deciles. Eligible companies traded on the American Stock Exchange (AMEX) and the Nasdaq National Market (NASDAQ) are then assigned to the appropriate deciles according to their capitalization in relation to the NYSE breakpoints. The portfolios are rebalanced, using closing prices for the last trading day of March, June, September, and December. Securities added during the quarter are assigned to the appropriate portfolio when two consecutive month-end prices are available. If the final NYSE price of a security that becomes delisted is a month-end price, then that month's return is included in the quarterly return of the security's portfolio. When a month-end NYSE price is missing, the month-end value of the security is derived from merger terms, quotations on regional exchanges, and other sources. If a month-end value still is not determined, the last available daily price is used.

Base security returns are monthly holding period returns. All distributions are added to the monthend prices, and appropriate price adjustments are made to account for stock splits and dividends. The return on a portfolio for one month is calculated as the weighted average of the returns for its individual stocks. Annual portfolio returns are calculated by compounding the monthly portfolio returns.

Size of the Deciles

Table 7-1 reveals that the top three deciles of the NYSE/AMEX/NASDAQ account for most of the total market value of its stocks. Nearly two-thirds of the market value is represented by the first decile, which currently consists of 168 stocks, while the smallest decile accounts for just over one percent of the

¹ Rolf W. Banz was the first to document this phenomenon. See Banz, Rolf W. "The Relationship Between Returns and Market Value of Common Stocks," Journal of Financial Economics, Vol. 9, 1981, pp. 3-18.

market value. The data in the second column of Table 7-1 are averages across all 81 years. Of course, the proportion of market value represented by the various deciles varies from year to year.

Columns three and four give recent figures on the number of companies and their market capitalization, presenting a snapshot of the structure of the deciles near the end of 2006.

Table 7-1
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Size and Composition
1926 through September 30, 2006

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Recent Percentage of Total Capitalization
1 largest	63.26%	168	\$9,586,846,750	61.64%
2	13.97%	179	2,148,609,950	13.81%
3	7 57%	198	1,126,434,240	7.24%
4	4.73%	184	624,621,080	4.02%
5	3.24%	209	492,840,110	3.17%
6	2.38%	264	428,711,640	2.76%
7	1.74%	291	333,661,890	2.15%
В	1.29%	355	284,415,720	1.83%
9	1.00%	660	298,400,730	1.92%
10-Smallest	0.82%	1,744	229,218,310	1.47%
Mid-Cap 3-5	15.54%	591	2,243,894,380	15.41%
Low-Cap 6-8	5.41%	910	1,046,789,110	7.19%
Micro-Cap 9-10	1.83%	2,404	527,619,100	3.62%

Source: © 200703 CRSP® Center for Research in Security Prices. Graduate School of Business, The University of Chicago. Used with permission. All rights reserved. www.crsp.uchicago.edu.

Historical average percentage of total capitalization shows the average, over the last 81 years, of the decile market values as a percentage of the total NYSE/AMEX/NASDAO calculated each month. Number of companies in deciles, recent market capitalization of deciles, and recent percentage of total capitalization are as of September 30, 2006.

Table 7-2 gives the current breakpoints that define the composition of the NYSE/AMEX/NASDAQ size deciles. The largest company and its market capitalization are presented for each decile. Table 7-3 shows the historical breakpoints for each of the three size groupings presented throughout this chapter. Mid-cap stocks are defined here as the aggregate of deciles 3-5. Based on the most recent data (Table 7-2), companies within this mid-cap range have market capitalizations at or below \$7,777,183,000 but greater than \$1,946,588,000. Low-cap stocks include deciles 6-8 and currently include all companies in the NYSE/AMEX/NASDAQ with market capitalizations at or below \$1,946,588,000 but greater than \$626,955,000. Micro-cap stocks include deciles 9-10 and include companies with market capitalizations at or below \$626,955,000. The market capitalization of the smallest company included in the micro-capitalization group is currently \$2,247,000.

Table 7-2
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Largest Company and Its Market Capitalization by Decile
September 30, 2006

Decile	Market Capitalization of Largest Company (in thousands)	Company Name
1-Largest	\$371,187,368	Exxon Mobil Corp.
2	16,820,566	EOG Resources Inc
3	7,777,183	Xcel Energy Inc.
4	4,085,184	First American Corp./CA
5	2,848,771	Scotts Miracle Gro Co.
6	1,946,588	DRS Technologies Inc.
7	1,378,476	ESCO Technologies Inc
8	975,624	Knoll Inc
9	626,955	Bandag Inc
10-Smallest	314,433	M & F Worldwide Corp.

Source. Center for Research in Security Prices, University of Chicago

Presentation of the Decile Data

Summary statistics of annual returns of the 10 deciles over 1926–2006 are presented in Table 7-4. Note from this exhibit that both the average return and the total risk, or standard deviation of annual returns, tend to increase as one moves from the largest decile to the smallest. Furthermore, the serial correlations of returns are near zero for all but the smallest two deciles. Serial correlations and their significance will be discussed in detail later in this chapter.

Graph 7-1 depicts the growth of one dollar invested in each of three NYSE/AMEX/NASDAQ groups broken down into mid-cap, low-cap, and micro-cap stocks. The index value of the entire NYSE/AMEX/NASDAQ is also included. All returns presented are value-weighted based on the market capitalizations of the deciles contained in each subgroup. The sheer magnitude of the size effect in some years is noteworthy. While the largest stocks actually declined 9 percent in 1977, the smallest stocks rose more than 20 percent. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and tenth decile returns was far more substantial, with the largest stocks rising 46 percent, and the smallest stocks rising 224 percent. This divergence in the performance of small and large company stocks is a common occurrence.

Table 7-3

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ

Largest and Smallest Company by Size Group

from 1926 to 1965

	Capitaliz	ation of Largest (in thousands)	Сотрану	Capitalization of Smallest Company (in thousands)			
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	
1926	\$61,490	\$13,835	\$4,263	\$13,860	\$4,278	\$43	
1927	\$65,078	\$14,522	\$4,450	\$14,664	\$4,496	\$65	
1928	\$81,095	\$18,788	\$5,119	\$18,801	\$5,170	\$135	
1929	\$103,054	\$24,300	\$5,850	\$24,328	\$5,862	\$118	
1930	\$66,750	\$12,918	\$3,356	\$13,050	\$3,359	\$30	
1931	\$43,120	\$8,142	\$1,944	\$8,222	\$1,946	\$15	
1932	\$12,667	\$2,208	\$46B	\$2,223	\$469	\$19	
1933	\$40,298	\$7,280	\$1,875	\$7,346	\$1,892	\$120	
1934	\$38,019	\$6,638	\$1,691	\$6,669	\$1,722	\$69	
1935	\$37,631	\$6,549	\$1,350	\$6,605	\$1,383	\$38	
1936	\$46,980	\$11,526	\$2,800	\$11,563	\$2,801	\$98	
1937	\$51,750	\$13,635	\$3,563	\$13,793	\$3,600	\$68	
1938	\$36,102	\$8,372	\$2,195	\$8,400	\$2,200	\$60	
1939	\$35,409	\$7,478	\$1,854	\$7,500	\$1,860	\$75	
1940	\$30,930	\$8,007	\$1,872	\$8,130	\$1,929	\$51	
1941	\$31,398	\$8,336	\$2,087	\$8,357	\$2,100	\$72	
1942	\$26,037	\$6,870	\$1,779	\$6,875	\$1,788	\$82	
1943	\$42,721	\$11,403	\$3,847	\$11,475	\$3,903	\$395	
1944	\$46,221	\$13,066	\$4,812	\$13,068	\$4,820	\$309	
1945	\$55,268	\$17,575	\$6,428	\$17,584	\$6,466	\$225	
1946	\$77,784	\$24,192	\$10,149	\$24,199	\$10,168	\$829	
1947	\$57,942	\$17,735	\$6,380	\$17,872	\$6,410	\$747	
1948	\$67,238	\$19,632	\$7,329	\$19,651	\$7,348	\$784	
1949	\$56,082	\$14,549	\$5,108	\$14,577	\$5,112	\$379	
1950	\$66,143	\$18,675	\$6,225	\$18,700	\$6,243	\$303	
1951	\$82,517	\$22,750	\$7,598	\$22,860	\$7,600	\$668	
1952	\$97,936	\$25,452	\$8,480	\$25,532	\$8,551	\$480	
1953	\$98,595	\$25,374	\$8,168	\$25,395	\$8,177	\$459	
1954	\$125,834	\$29,707	\$8,488	\$29,791	\$8,502	\$463	
1955	\$170,829	\$41,681	\$12,444	\$41,861	\$12,524	\$553	
1956	\$183,792	\$46,886	\$13,623	\$47,103	\$13,659	\$1,122	
1957	\$194,300	\$47,658	\$13,848	\$48,509	\$13,950	\$925	
1958	\$195,536	\$46,774	\$13,816	\$46,871	\$14,015	\$550	
1959	\$256,283	\$64,110	\$19,548	\$64,221	\$19,701	\$1,804	
1960	\$252,292	\$61,529	\$19,344	\$61,596	\$19,385	\$831	
1961	\$301,464	\$77,996	\$23,562	\$78,976	\$23,613	\$2,455	
1962	\$250,786	\$58,785	\$18,744	\$58,866	\$18,952	\$1,018	
1963	\$308,903	\$71,846	\$23,927	\$71,971	\$24,056	\$296	
1964	\$349,675	\$79,508	\$25,595	\$79,937	\$25,607	\$223	
1965	\$365,675	\$84,600	\$28,483	\$85,065	\$28,543	\$250	

Source: Center for Research in Security Prices, University of Chicago.

Firm Size and Return

Table 7-3 (continued)

Size-Decile Portfolios of the NYSE/AMEX/NASDAQ

Largest and Smallest Company by Size Group

from 1966 to 2006

		tion of Largest ((in thousands)	Company	Capitalization of Smallest Company (in thousands)			
Date (Sept 30)	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	Mid-Cap 3-5	Low-Cap 6-8	Micro-Cap 9-10	
1966	\$403,137	\$99,960	\$34,884	\$100,107	\$34,966	\$381	
1967	\$459,438	\$118,988	\$42,188	\$119,635	\$42,237	\$381	
1968	\$531,306	\$150,893	\$60,543	\$151,260	\$60,719	\$592	
1969	\$518,485	\$146,792	\$54,353	\$147,311	\$54,503	\$2,119	
1970	\$382,884	\$94,754	\$29,916	\$94,845	\$29,932	\$822	
1971	\$551,690	\$147,426	\$45,570	\$147,810	\$45,571	\$865	
1972	\$557,181	\$143,835	\$46,728	\$144,263	\$46,757	\$1,031	
1973	\$431,354	\$96,699	\$29,3 52	\$96,710	\$29,430	\$561	
1974	\$356,876	\$79,878	\$23,355	\$80,280	\$23,400	\$444	
1975	\$477,054	\$102,313	\$30,353	\$103,283	\$30,394	\$540	
1976	\$566,296	\$121,717	\$34,864	\$121,992	\$34,901	\$564	
1977	\$584,577	\$139,196	\$40,700	\$139,620	\$40,765	\$513	
1978	\$580,881	\$164,093	\$47,927	\$164,455	\$48,038	\$830	
1979	\$665,019	\$177,378	\$51,197	\$177,769	\$51,274	\$948	
1980	\$762,195	\$199,312	\$50,496	\$199,315	\$50,544	\$549	
1981	\$962,397	\$264,690	\$72,104	\$264,783	\$72,450	\$1,446	
1982	\$770,517	\$210,301	\$55,336	\$210,630	\$55,423	\$1,060	
1983	\$1,209,911	\$353,889	\$104,382	\$356,238	\$104,588	\$2,025	
1984	\$1,075,436	\$315,965	\$91,004	\$316,103	\$91,195	\$2,093	
1985	\$1,440,436	\$370,224	\$94,875	\$370,729	\$94,887	\$760	
1986	\$1,857,621	\$449,015	\$110,617	\$449,462	\$110,953	\$706	
1987	\$2,059,143	\$468,948	\$113,419	\$470,662	\$113,430	\$1,277	
1988	\$1,957,926	\$421,340	\$94,449	\$421,675	\$94,573	\$696	
1989	\$2,145,947	\$480,975	\$100,285	\$483,623	\$100,384	\$96	
1990	\$2,171,217	\$474,065	\$93,750	\$474,477	\$93,790	\$132	
1991	\$2,129,863	\$457,958	\$87,586	\$458,853	\$87,733	\$278	
1992	\$2,428,671	\$500,327	\$103,352	\$500,346	\$103,500	\$510	
1993	\$2,705,192	\$603,588	\$137,105	\$607,449	\$137,137	\$602	
1994	\$2,470,244	\$596,059	\$148,104	\$597,975	\$148,216	\$598	
1995	\$2,789,938	\$647,210	\$155,386	\$647,253	\$155,532	\$89	
1996	\$3,142,657	\$751,316	\$193,001	\$751,680	\$193,016	\$1,043	
1997	\$3,484,440	\$813,923	\$228,900	\$814,355	\$229,058	\$585	
1998	\$4,216,707	\$925,688	\$252,553	\$926,215	\$253,031	\$1,671	
1999	\$4,251,741	\$875,309	\$220,397	\$875,582	\$220,456	\$1,502	
2000	\$4,143,302	\$840,000	\$192,083	\$840,730	\$192,439	\$1,393	
2001	\$5,156,315	\$1,108,224	\$265,734	\$1,108,969	\$265,736	\$443	
2002	\$4,930,326	\$1,116,525	\$308,880	\$1,124,331	\$309,245	\$50	
2003	\$4,744,580	\$1,163,369	\$329,060	\$1,163,423	\$329,529	\$337	
2004	\$6,241,953	\$1,607,854	\$505,437	\$1,687,931	\$506,410	\$1,39	
2005	\$7,187,244	\$1,728,888	\$586,393	\$1,729,364	\$587,243	\$1,079	
2006	\$7,777,183	\$1,946,588	\$626,955	\$1,947,240	\$627,017	\$2,24	

Table 7-4
Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, Summary Statistics of Annual Returns
1926–2006

Decile	Geometric Mean	Arithmetic Mean	Standard Deviation	Serial Correlation
1-Largest	96	11.3	19.06	0.09
2	11.0	13.3	21.72	0.03
3	11.3	13.8	23.51	-0.02
4	11.3	14.3	25.78	-0.02
5	11.7	14.9	26.61	0.02
6	118	15.3	27.67	0.04
7	11.7	156	29.80	0 01
8	11.9	16.6	33 27	0.04
9	12.1	17.5	36.31	0.05
10-Smallest	14.0	21.6	45.16	0.15
Mid-Cap, 3–5	11.4	14.2	24.59	0.02
Low-Cap, 6–8	11.8	15.7	29.34	0.03
Micro-Cap, 9-10	12.8	18.B	38.92	0.08
NYSE/AMEX/NASDAQ Total Value-Weighted Index	10.1	12.1	20.08	0 03

Source: Center for Research in Security Prices, University of Chicago

Aspects of the Firm Size Effect

The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have had returns in excess of those implied by their betas.

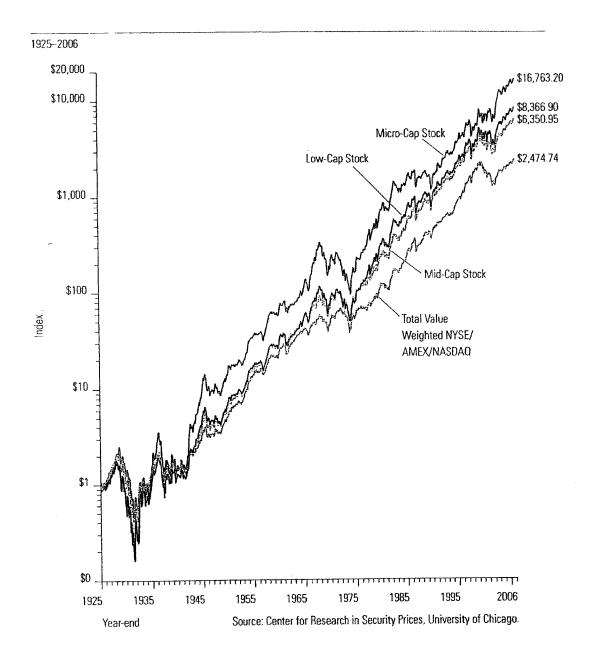
Second, the calendar annual return differences between small and large companies are serially correlated. This suggests that past annual returns may be of some value in predicting future annual returns. Such serial correlation, or autocorrelation, is practically unknown in the market for large stocks and in most other equity markets but is evident in the size premia.

Third, the firm size effect is seasonal. For example, small company stocks outperformed large company stocks in the month of January in a large majority of the years. Such predictability is surprising and suspicious in light of modern capital market theory. These three aspects of the firm size effect—long-term returns in excess of systematic risk, serial correlation, and seasonality—will be analyzed thoroughly in the following sections.

Graph 7-1

Size-Decile Portlolios of the NYSE/AMEX/NASDAQ: Wealth Indices of Investments in Mid-, Low-, Micro- and **Total Capitalization Stocks**

Year-end 1925 = \$1 00



Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model (CAPM) does not fully account for the higher returns of small company stocks. Table 7-5 shows the returns in excess of systematic risk over the past 81 years for each decile of the NYSE/AMEX/NASDAQ. Recall that the CAPM is expressed as follows:

$$k_s = r_i + (\beta_s \times ERP)$$

Table 7-5 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by β (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk). Beta measures the extent to which a security or portfolio is exposed to systematic risk. The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

A beta greater than one indicates that the security or portfolio has greater systematic risk than the market; according to the CAPM equation, investors are compensated for taking on this additional risk. Yet, Table 7-5 illustrates that the smaller deciles have had returns that are not fully explained by their higher betas. This return in excess of that predicted by CAPM increases as one moves from the largest companies in decile 1 to the smallest in decile 10. The excess return is especially pronounced for microcap stocks (deciles 9–10). This size-related phenomenon has prompted a revision to the CAPM, which includes a size premium. Chapter 4 presents this modified CAPM theory and its application in more detail.

This phenomenon can also be viewed graphically, as depicted in the Graph 7-2. The security market line is based on the pure CAPM without adjustment for the size premium. Based on the risk (or beta) of a security, the expected return lies on the security market line. However, the actual historic returns for the smaller deciles of the NYSE/AMEX/NASDAQ lie above the line, indicating that these deciles have had returns in excess of that which is appropriate for their systematic risk.

^{2.} The equity risk premium is estimated by the 81-year arithmetic mean return on large company stocks, 12.34 percent, less the 81-year arithmetic mean income-return component of 20-year government bonds as the historical riskless rate, in this case 5.21 percent. (It is appropriate, however, to match the maturity, or duration, of the riskless asset with the investment horizon.) See Chapter 5 for more detail on equity risk premium estimation.

³ Historical betas were calculated using a simple regression of the monthly portfolio (decile) total returns in excess of the 30-day U.S. Treasury bill total returns versus the Sap 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2006. See Chapter 6 for more detail on beta estimation.

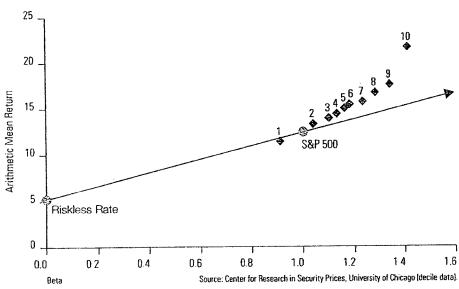
Table 7-5 Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ 1926-2006

Decile	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0 91	11.35%	6.13%	6.49%	-0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1.10	13.85%	8.64%	7.82%	0 81%
4	1.13	14 28%	9.07%	8.04%	1.03%
5	1.16	14.92%	9.71%	8.26%	1.45%
6	1.18	15.33%	10.11%	8.45%	1.67%
7	1 23	15.63%	10.42%	8 80%	1.62%
8	1 28	16.61%	11.39%	9.12%	2.28%
9	1 34	17.48%	12.27%	9.57%	2.70%
10-Smallest	1.41	21.57%	16.36%	10.09%	6.27%
Mid-Cap, 3-5	1 12	14.15%	8.94%	7 97%	0 97%
Low-Cap, 6-8	1 22	15.67%	10.46%	8.70%	1.76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9 68%	3.88%

^{*}Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926—December 2006.

†Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12 34 percent) minus the arithmetic mean income return component of 20-year government bonds (5 21 percent) from 1926–2006

Graph 7-2 Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ 1926-2006



^{**}Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 percent)

Further Analysis of the 10th Decile

The size premia presented thus far do a great deal to explain the return due solely to size in publicly traded companies. However, by splitting the 10th decile into two size groupings we can get a closer look at the smallest companies. This magnification of the smallest companies will demonstrate whether the company size to size premia relationship continues to hold true.

As previously discussed, the method for determining the size groupings for size premia analysis was to take the stocks traded on the NYSE and break them up into 10 deciles, after which stocks traded on the AMEX and NASDAQ were allocated into the same size groupings. This same methodology was used to split the 10th decile into two parts: 10a and 10b, with 10b being the smaller of the two. This is equivalent to breaking the stocks down into 20 size groupings, with portfolios 19 and 20 representing 10a and 10b.

Table 7-7 shows that the pattern continues; as companies get smaller their size premium increases. There is a noticeable increase in size premium from 10a to 10b, which can also be demonstrated visually in Graph 7-3. This can be useful in valuing companies that are extremely small. Table 7-6 presents the size, composition, and breakpoints of deciles 10a and 10b. First, the recent number of companies and total decile market capitalization are presented. Then the largest company and its market capitalization are presented.

Breaking the smallest decile down lowers the significance of the results compared to results for the 10th decile taken as a whole, however. The same holds true for comparing the 10th decile with the Micro-Cap aggregation of the 9th and 10th deciles. The more stocks included in a sample the more significance can be placed on the results. While this is not as much of a factor with the recent years of data, these size premia are constructed with data back to 1926. By breaking the 10th decile down into smaller components we have cut the number of stocks included in each grouping. The change over time of the number of stocks included in the 10th decile for the NYSE/AMEX/NASDAQ is presented in Table 7-8. With fewer stocks included in the analysis early on, there is a strong possibility that just a few stocks can dominate the returns for those early years.

While the number of companies included in the 10th decile for the early years of our analysis is low, it is not too low to still draw meaningful results even when broken down into subdivisions 10a and 10b. All things considered, size premia developed for deciles 10a and 10b are significant and can be used in cost of capital analysis. These size premia should greatly enhance the development of cost of capital analysis for very small companies.

Table 7-6
Size-Decile Portfolios 10a and 10b of the NYSE/AMEX/NASDAQ,
Largest Company and Its Market Capitalization
September 30, 2006

Decile	Recent Number of Companies	Recent Decile Market Capitalization (in thousands)	Market Capitalization of Largest Company (in thousands)	Company Name
10a	511	124,268,473	314,433	M & F Worldwide Corp.
10b	1,237	103,630,389	173,439	Great Lakes Bancorp Inc. New

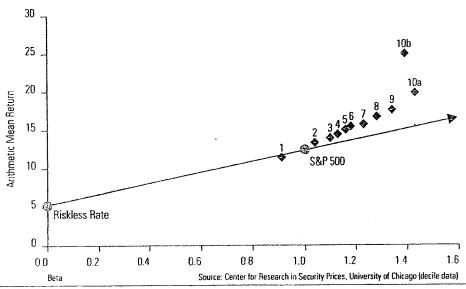
Note: These numbers may not aggregate to equal decile 10 figures. Source: Center for Research in Security Prices, University of Chicago

Table 7-7
Long-Term Returns in Excess of CAPM Estimation for Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split
1926–2006

	Beta*	Arithmetic Mean Return	Realized Return in Excess of Riskless Rate**	Estimated Return in Excess of Riskless Rate†	Size Premium (Return in Excess of CAPM)
1-Largest	0.91	11 35%	6.13%	6.49%	0.36%
2	1.04	13.25%	8.04%	7.39%	0.65%
3	1 10	13.85%	8.64%	7.82%	0.81%
4	1.13	14.28%	9.07%	8 04%	1.03%
5	1.16	14.92%	9.71%	8.26%	1 45%
6	1.18	15.33%	10 11%	8.45%	1 67%
7	1 23	15.63%	10 42%	8.80%	1 62%
8	1.28	16 61%	11.39%	9.12%	2.28%
9	1.34	17 48%	12.27%	9 57%	2.70%
10a	1 43	19 74%	14.53%	10.17%	4 35%
10b-Smallest	1 39	24.78%	19.57%	9.89%	9.68%
Mid-Cap, 3-5	1 12	14 15%	8.94%	7.97%	0.97%
Low-Cap, 6-8	1.22	15.67%	10 46%	8.70%	1 76%
Micro-Cap, 9-10	1.36	18.77%	13.56%	9.68%	3.88%

^{*}Betas are estimated from monthly portfolio total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926—December 2006.

Graph 7-3
Security Market Line versus Size-Decile Portfolios of the NYSE/AMEX/NASDAQ, with 10th Decile Split 1926-2006



^{**}Historical riskless rate is measured by the 81-year arithmetic mean income return component of 20-year government bonds (5.21 percent).

¹Calculated in the context of the CAPM by multiplying the equity risk premium by beta. The equity risk premium is estimated by the arithmetic mean total return of the S&P 500 (12.34 percent) minus the arithmetic mean income return component of 20-year government bonds (5.21 percent) from 1926–2006

Table 7-8
Historical Number of Companies for NYSE/AMEX/NASDAQ Decile 10

Sept.	Number of Companies		
1926	52*		
1930	72		
1940	78		
1950	100		
1960	109		
1970	865		
1980	685		
1990	1,814		
2000	1,927		
2005	1,746		
2006	1,744		

^{*}The fewest number of companies was 49 in March, 1926

Source: Center for Research in Security Prices, University of Chicago.

Alternative Methods of Calculating the Size Premia

The size premia estimation method presented above makes several assumptions with respect to the market benchmark and the measurement of beta. The impact of these assumptions can best be examined by looking at some alternatives. In this section we will examine the impact on the size premia of using a different market benchmark for estimating the equity risk premia and beta. We will also examine the effect on the size premia study of using sum beta or an annual beta.

Changing the Market Benchmark

In the original size premia study, the S&P 500 is used as the market benchmark in the calculation of the realized historical equity risk premium and of each size group's beta. The NYSE total value-weighted index is a common alternative market benchmark used to calculate beta. Table 7-9 uses this market benchmark in the calculation of beta. In order to isolate the size effect, we require an equity risk premium based on a large company stock benchmark. The NYSE deciles 1-2 large company index offers a mutually exclusive set of portfolios for the analysis of the smaller company groups: mid-cap deciles 3-5, low-cap deciles 6-8, and micro-cap deciles 9-10. The size premia analyses using these benchmarks are summarized in Table 7-9 and depicted graphically in Graph 7-4.

For the entire period analyzed, 1926-2006, the betas obtained using the NYSE total value-weighted index are higher than those obtained using the S&P 500. Since smaller companies had higher betas using the NYSE benchmark, one would expect the size premia to shrink. However, as was illustrated in Chapter 5, the equity risk premium calculated using the NYSE deciles 1-2 benchmark results in a value of 6.41, as opposed to 7.13 when using the S&P 500. The effect of the higher betas and lower equity risk premium cancel each other out, and the resulting size premia in Table 7-9 are slightly higher than those resulting from the original study.

⁴ Sum beta is the method of beta estimation described in Chapter 6 that was developed to better account for the lagged reaction of small stocks to market movements. The sum beta methodology was developed for the same reason that the size premia were developed; small company betas were too small to account for all of their excess returns.

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Utilities

The utilities rating methodology encompasses two basic components: business risk analysis and financial analysis. Evaluation of industry characteristics, the utility's position within that industry, its regulation, and its management provides the context for assessing a firm's financial condition.

Historical analysis is a tool for identifying strengths and weaknesses, and provides a starting point for evaluating financial condition. Business position assessment is the qualitative measure of a utility's fundamental creditworthiness. It focuses on the forces that will shape the utilities' future.

Utilities credit analysis	IBLIDIE
Business risk	Financial risk
Markets and service area	Earnings protection
economy	Capital structure
Competitive position	 Cash flow adequacy
 Operations 	Financial flexibility/capital
 Regulation 	attraction
 Management 	
• Fuel, power, and water	
supply	
Asset concentration	

The credit analysis of utilities is quickly evolving, as utilities are treated less as regulated monopolies and more as entities faced with a host of challengers in a competitive environment. Marketplace dynamics are supplanting the power of regulation, making it critically important to reduce costs and/or market new services in order to thwart competitors' inroads.

Markets and service area economy

Assessing service territory begins with the economic and demographic evaluation of the area in which the utility has its franchise. Strength of long-term demand for the product is examined from a macroeconomic perspective. This enables Standard & Poor's to evaluate the affordability of rates and the staying power of demand.

Standard & Poor's tries to discern any secular consumption trends and, more importantly, the reasons for them. Specific items examined include the size and growth rate of the market, strength of the franchise, historical and projected sales growth, income levels and trends in population, employment, and per capita income. A utility with a healthy economy and customer base—as illustrated by diverse employment opportunities, average or above-average wealth and income statistics, and low unemploy-

ment—will have a greater capacity to support its opera-

For electric and gas utilities, distribution by customer class is scrutinized to assess the depth and diversity of the utility's customer mix. For example, heavy industrial concentration is viewed cautiously, since a utility may have significant exposure to cyclical volatility. Alternatively, a large residential component yields a stable and more predictable revenue stream. The largest utility customers are identified to determine their importance to the bottom line and assess the risk of their loss and potential adverse effect on the utility's financial position. Credit concerns arise when individual customers represent more than 5% of revenues. The company or industry may play a significant role in the overall economic base of the service area. Moreover, large customers may turn to cogeneration or alternative power supplies to meet their energy needs, potentially leading to reduced cash flow for the utility (even in cases where a large customer pays discounted rates and is not a profitable account for the utility). Customer concentration is less significant for water and telecommunication utili-

Competitive position

As competitive pressures have intensified in the utilities industry, Standard & Poor's analysis has deepened to include a more thorough review of competitive position.

Electric utility competition

For electric utilities, competitive factors examined include: percentage of firm wholesale revenues that are most vulnerable to competition; industrial load concentration; exposure of key customers to alternative suppliers; commercial concentrations; rates for various customer classes; rate design and flexibility; production costs, both marginal and fixed; the regional capacity situation; and transmission constraints. A regional focus is evident, but high costs and rates relative to national averages are also of significant concern because of the potential for electricity substitutes over time.

Mounting competition in the electric utility industry derives from excess generating capacity, lower barriers to entering the electric generating business, and marginal costs that are below embedded costs. Standard & Poor's has already witnessed declining prices in wholesale markets, as de facto retail competition is already being seen in several parts of the country. Standard & Poor's believes that over the coming years more and more customers will want and demand lower prices. Initial concerns focus on the largest industrial loads, but other customer classes will be increasingly vulnerable. Competition will not necessar-

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ily be driven by legislation. Other pressures will arise from global competition and improving technologies, whether it be the declining cost of incremental generation or advances in transmission capacity or substitute energy sources like the fuel cell. It is impossible to say precisely when wide-open retail competition will occur; this will be evolutionary. However, significantly greater competition in retail markets is inevitable.

Gas utility competition

Similarly, gas utilities are analyzed with regard to their competitive standing in the three major areas of demand: residential, commercial, and industrial. Although regulated as holders of monopoly power, natural gas utilities have for some time been actively competing for energy market share with fuel oil, electricity, coal, solar, wood, etc. The long-term staying power of market demand for natural gas cannot be taken for granted. In fact, as the electric utility industry restructures and reduces costs, electric power will become more cost competitive and threaten certain gas markets. In addition, independent gas marketers have made greater inroads behind the city gate and are competing for large gas users. Moreover, the recent trend by state regulators to unbundle utility services is creating opportunities for outsiders to market niche products. Distributors still have the upper hand, but those who do not reduce and control costs, and thus rates, could find competition even more difficult.

Natural gas pipelines are judged to carry a somewhat higher business risk than distribution companies because they face competition in every one of their markets. To the extent a pipeline serves utilities versus industrial end users, its stability is greater. Over the next five years, pipeline competition will heat up since many service contracts with customers are expiring. Most distributor or end-use customers are looking to reduce pipeline costs and are working to improve their load factor to do so. Thus, pipelines will likely find it difficult to recontract all capacity in coming years. Being the pipeline of choice is a function of attractive transportation rates, diversity and quality of services provided, and capacity available in each particular market. In all cases though, periodic discounting of rates to retain customers will occur and put pressure on profitability.

Water utility competition

As the last true utility monopoly, water utilities face very little competition and there is currently no challenge to the continuation of franchise areas. The only exceptions have been cases where investor-owned water companies have been subject to condemnation and municipalization because of poor service or political motivations. In that regard, Standard & Poor's pays close attention to costs and rates in relation to neighboring utilities and national averages. (In contrast, the privatization of public water facilities has begun, albeit at a slower pace than anticipated. This is occurring mostly in the form of operating contracts and public/private partnerships, and not in asset transfers. This trend should continue as cities look for ways to bal-

ance their tight budgets.) Also, water utilities are not fully immune to the forces of competition; in a few instances wholesale customers can access more than one supplier.

Telephone competition

The Telecommunications Act of 1996 accelerates the continuing challenge to the local exchange companies' (LECs) century-old monopoly in the local loop. Competitive access providers (CAPs), both facilities-based and resellers, are aggressively pursuing customers, generally targeting metropolitan areas, and promising lower rates and better service.

Most long-distance calls are still originated and terminated on the local telephone company network. To complete such a call, the long-distance provider (including AT&T, MCI, Sprint and a host of smaller interexchange carriers or "IXCs") must pay the local telephone company a steep "access" fee to compensate the local phone company for the use of its local network. CAPs, in contrast, build or lease facilities that directly connect customers to their long-distance carrier, bypassing the local telephone company and avoiding access fees, and thereby can offer lower long-distance rates. But the LECs are not standing still; they are combating the loss of business to CAPs by lowering access fees, thereby reducing the economic incentive for a high usage long-distance customer to use a CAP. LECs are attempting to make up for the loss of revenues from lower access fees by increasing basic local service rates (or at least not lowering them), since basic service is far less subject to competition. LECs are improving operating efficiency and marketing high margin, value-added new services. Additionally, in the wake of the Telecommunications Act, LECs will capture at least some of the inter-LATA long-distance market. As a result of these initiatives, LECs continue to rebuild themselves—from the traditional utility monopoly to leaner, more marketing oriented organizations.

While LECs, and indeed all segments of the telecommunications sector, face increasing competition, there are favorable industry factors that tend to offset heightened business risk and auger for overall ratings stability for most LECs. Importantly, telecommunications is a declining-cost business. With increased deployment of fiber optics, the cost of transport has fallen dramatically and digital switching hardware and software have yielded more capable, trouble-free and cost-efficient networks. As a result, the cost of network maintenance has dropped sharply, as illustrated by the ratio of employees per 10,000 access lines, an oft cited measurement of efficiency. Ratios as low as 25 employees per 10,000 lines are being seen, down from the typical 40 or more employees per 10,000 ratio of only a few years ago.

In addition, networks are far more capable. They are increasingly digitally switched and able to accommodate high-speed communications. The infrastructure needed to accommodate switched broadband services will be built into telephone networks over the next few years. These advanced networks will enable telephone companies to look to a greater variety of high-margin, value-added serv-

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ices. In addition to those current services such as call waiting or caller ID, the delivery of hundreds of broadcast and interactive video channels will be possible. While these services offer the potential of new revenue streams, they will simultaneously present a formidable challenge. LECs will be entering the new (to them) arena of multimedia entertainment and will have to develop expertise in marketing and entertainment programming acumen; such skills stand in sharp contrast to LECs' traditional strengths in engineering and customer service.

Operations

Standard & Poor's focuses on the nature of operations from the perspective of cost, reliability, and quality of service. Here, emphasis is placed on those areas that require management attention in terms of time or money and which, if unresolved, may lead to political, regulatory, or competitive problems.

Operations of electric utilities

For electrics, the status of utility plant investment is reviewed with regard to generating plant availability and utilization, and also for compliance with existing and contemplated environmental and other regulatory standards. The record of plant outages, equivalent availability, load factors, heat rates, and capacity factors are examined. Also important is efficiency, as defined by total megawatt hour per employee and customers per employee. Transmission interconnections are evaluated in terms of the number of utilities to which the utility in question has access, the cost structures and available generating capacity of these other utilities, and the price paid for wholesale power.

Because of mounting competition and the substantial escalation in decommissioning estimates, significant weight is given to the operation of nuclear facilities. Nuclear plants are becoming more vulnerable to high production costs that make their rates uneconomic. Significant asset concentration may expose the utility to poor performance, unscheduled outages or premature shutdowns, and large deferrals or regulatory assets that may need to be written off for the utility to remain competitive. Also, nuclear facilities tend to represent significant portions of their operators' generating capability and assets. The loss of a productive nuclear unit from both power supply and rate base can interrupt the revenue stream and create substantial additional costs for repairs and improvements and replacement power. The ability to keep these stations running smoothly and economically directly influences the ability to meet electric demand, the stability of revenues and costs, and, by extension, the ability to maintain adequate creditworthiness. Thus, economic operation, safe operation, and long-term operation are examined in depth. Specifically, emphasis is placed on operation and maintenance costs, busbar costs, fuel costs, refueling outages, forced outages, plant statistics, NRC evaluations, the potential need for repairs, operating licenses, decommissioning estimates and amounts held in external trusts, spent fuel storage capacity, and management's nuclear experience. In essence, favorable nuclear operations offer significant opportunities but, if a nuclear unit runs poorly or not at all, the attendant risks can be great.

Operations of gas utilities

For gas pipeline and distribution companies, the degree of plant utilization, the physical condition of the mains and lines, adequacy of storage to meet seasonal needs, "lost and unaccounted for" gas levels, and per-unit nongas operating and construction costs are important factors. Efficiency statistics such as load factor, operating costs per customer, and operating income per employee are also evaluated in comparison to other utilities and the industry as a whole.

Operations of water utilities

As a group, water utilities are continually upgrading their physical plant to satisfy regulations and to develop additional supply. Over the next decade, water systems will increasingly face the task of maintaining compliance, as drinking water regulations change and infrastructure ages. Given that the Safe Drinking Water Act was authorized in 1974, the first generation of treatment plants built to conform with these rules are almost 20 years old. Additionally, because the focus during this period was on satisfying environmental standards, deferred maintenance of distribution systems has been common, especially in older urban areas. The increasing cost of supplying treated water argues against the high level of unaccounted for water witnessed in the industry. Consequently, Standard & Poor's anticipates capital plans for rebuilding distribution lines and major renewal and replacement efforts aimed at treatment plants.

Operations of telephone companies

For telephone companies, cost-of-service analysis focuses on plant capability and measures of efficiency and quality of service. Plant capability is ascertained by looking at such parameters as percentage of digitally switched lines; fiber optic deployment, in particular in those portions of the plant key to network survival; and the degree of broadband capacity fiber and coaxial deployment and broadband switching capacity. Efficiency measures include operating margins, the ratio of employees per 10,000 access lines, and the extent of network and operations consolidation. Quality of service encompasses examination of quantitative measures, such as trouble reports and repeat service calls, as well as an assessment of qualitative factors, that may include service quality goals mandated by regulators.

Regulation

Regulatory rate-setting actions are reviewed on a caseby-case basis with regard to the potential effect on creditworthiness. Regulators' authorizing high rates of return is of little value unless the returns are earnable. Furthermore, allowing high returns based on noncash items does not benefit bondholders. Also, to be viewed positively, regulatory treatment should allow consistent performance from

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period to period, given the importance of financial stability as a rating consideration.

The utility group meets frequently with commission and staff members, both at Standard & Poor's offices and at commission headquarters, demonstrating the importance Standard & Poor's places on the regulatory arena for credit quality evaluation. Input from these meetings and from review of rate orders and their impact weigh heavily in Standard & Poor's analysis.

Standard & Poor's does not "rate" regulatory commissions. State commissions typically regulate a number of diverse industries, and regulatory approaches to different types of companies often differ within a single regulatory jurisdiction. This makes it all but impossible to develop inclusive "ratings" for regulators.

Standard & Poor's evaluation of regulation also encompasses the administrative, judicial, and legislative processes involved in state and federal regulation. These can affect rate-setting activities and other aspects of the business, such as competitive entry, environmental and safety rules, facility siting, and securities sales.

As the utility industry faces an increasingly deregulated environment, alternatives to traditional rate-making are becoming more critical to the ability of utilities to effectively compete, maintain earnings power, and sustain creditor protection. Thus, Standard & Poor's focuses on whether regulators, both state and federal, will help or hinder utilities as they are exposed to greater competition. There is much that regulators can do, from allocating costs to more captive customers to allowing pricing flexibility—and sometimes just stepping out of the way.

Under traditional rate-making, rates and earnings are tied to the amount of invested capital and the cost of capital. This can sometimes reward companies more for justifying costs than for containing them. Moreover, most current regulatory policies do not permit utilities to be flexible when responding to competitive pressures of a deregulated market. Lack of flexible tariffs for electric utilities may lure large customers to wheel cheaper power from other sources.

In general, a regulatory jurisdiction is viewed favorably if it permits earning a return based on the ability to sustain rates at competitive levels. In addition to performance-based rewards or penalties, flexible plans could include market-based rates, price caps, index-based prices, and rates premised on the value of customer service. Such rates more closely mirror the competitive environment that utilities are confronting.

Electric industry regulation

The ability to enter into long-term arrangements at negotiated rates without having to seek regulatory approval for each contract is also important in the electric industry. (While contracting at reduced rates constrains financial performance, it lessens the potential adverse impact in the event of retail wheeling. Since revenue losses associated with this strategy are not likely to be recovered from rate-payers, utilities must control costs well enough to remain

competitive if they are to sustain current levels of bondholder protection.)

Natural gas industry regulation

In the gas industry, too, several state commission policies weigh heavily in the evaluation of regulatory support. Examples include stabilization mechanisms to adjust revenues for changes in weather or the economy, rate and service unbundling decisions, revenue and cost allocation between sales and transportation customers, flexible industrial rates, and the general supportiveness of construction costs and gas purchases.

Water industry regulation

In all water utility activities, federal and state environmental regulations continue to play a critical role. The legislative timetable to effect the 1986 amendments to the Safe Drinking Water Act of 1974 was quite aggressive. But environmental standards-setting has actually slowed over the past couple of years due largely to increasing sentiment that the stringent, costly standards have not been justified on the basis of public health. A moratorium on the promulgation of significant new environmental rules is anticipated.

Telecommunications industry regulation

Despite the advances in telecommunications deregulation, analysis of regulation of telephone operators will continue to be a key rating determinant for the foreseeable future. The method of regulation may be either classic rate-based rate of return or some form of price cap mechanism. The most important factor is to assess whether the regulatory framework—no matter which type—provides sufficient financial incentive to encourage the rated company to maintain its quality of service and to upgrade its plant to accommodate new services while facing increasing competition from wireless operators and cable television companies.

Where regulators do still set tariffs based on an authorized return, Standard & Poor's strives to explore with regulators their view of the rate-of-return components that can materially impact reported versus regulatory earnings. Specifically these include the allowable base upon which the authorized return can be earned, allowable expenses, and the authorized return. Since regulatory oversigh runs the gamut from strict, adversarial relationships with the regulated operating companies to highly supportive postures, Standard & Poor's probes beyond the apparent regulatory environment to ascertain the actual impact of regulation on the rated company.

Management

Evaluating the management of a utility is of paramount importance to the analytical process since management's abilities and decisions affect all areas of a company's operations. While regulation, the economy, and other outside factors can influence results, it is ultimately the quality of management that determines the success of a company.

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With emerging competition, utility management will be more closely scrutinized by Standard & Poor's and will become an increasingly critical component of the credit evaluation. Management strategies can be the key determinant in differentiating utilities and in establishing where companies lie on the business position spectrum. It is imperative that managements be adaptable, aggressive, and proactive if their utilities are to be viable in the future; this is especially important for utilities that are currently uncompetitive.

The assessment of management is accomplished through meetings, conversations, and reviews of company plans. It is based on such factors as tenure, industry experience, grasp of industry issues, knowledge of customers and their needs, knowledge of competitors, accounting and financing practices, and commitment to credit quality. Management's ability and willingness to develop workable strategies to address their systems' needs, to deal with the competitive pressures of free market, to execute reasonable and effective long-term plans, and to be proactive in leading their utilities into the future are assessed. Management quality is also indicated by thoughtful balancing of public and private priorities, a record of credibility, and effective communication with the public, regulatory bodies, and the financial community. Boards of directors will receive ever more attention with respect to their role in setting appropriate management incentives.

With competition the watchword, Standard & Poor's also focuses on management's efforts to enhance financial condition. Management can bolster bondholder protection by taking any number of discretionary actions, such as selling common equity, lowering the common dividend payout, and paying down debt. Also important for the electric industry will be creativity in entering into strategic alliances and working partnerships that improve efficiency, such as central dispatching for a number of utilities or locking up at-risk customers through long-term contracts or expanded flexible pricing agreements. Proactive management teams will also seek alternatives to traditional rate-base, rate-of-return rate-making, move to adopt higher depreciation rates for generating facilities, segment customers by individual market preferences, and attempt to create superior service organizations.

In general, management's ability to respond to mounting competition and changes in the utility industry in a swift and appropriate manner will be necessary to maintain credit health.

Fuel, power, and water supply

Assessment of present and prospective fuel and power supply is critical to every electric utility analysis, while gauging the long-term natural gas supply position for gas pipeline and distribution companies and the water resources of a water utility is equally important. There is no similar analytical category for telephone utilities.

Electric utilities

For electric utilities emphasis is placed on generating

reserve margins, fuel mix, fuel contract terms, demand-side management techniques, and purchased power arrangements. The adequacy of generating margins is examined nationally, regionally, and for each individual company. However, the reserve margin picture is muddled by the imprecise nature of peak-load growth forecasting, and also supply uncertainty relating to such things as Canadian capacity availability and potential plant shutdowns due to age, new NRC rules, acid rain remedies, fuel shortages, problems associated with nontraditional technologies, and so forth. Even apparently ample reserves may not be what they seem. Moreover, the quality of capacity is just as important as the size of reserves. Companies' reserve requirements differ, depending upon individual operating characteristics.

Fuel diversity provides flexibility in a changing environment. Supply disruptions and price hikes can raise rates and ignite political and regulatory pressures that ultimately lead to erosion in financial performance. Thus, the ability to alter generating sources and take advantage of lower cost fuels is viewed favorably.

Dependence on any single fuel means exposure to that fuel's problems: electric utilities that rely on oil or gas face the potential for shortages and rapid price increases; utilities that own nuclear generating facilities face escalating costs for decommissioning; and coal-fired capacity entails environmental problems stemming from concerns over acid rain and the "greenhouse effect."

Buying power from neighboring utilities, qualifying facility projects, or independent power producers may be the best choice for a utility that faces increasing electricity demand. There has been a growing reliance on purchased power arrangements as an alternative to new plant construction. This can be an important advantage, since the purchasing utility avoids potential construction cost overruns as well as risking substantial capital. Also, utilities can avoid the financial risks typical of a multiyear construction program that are caused by regulatory lag and prudence reviews. Furthermore, purchased power may enhance supply flexibility, fuel resource diversity, and maximize load factors. Utilities that plan to meet demand projections with a portfolio of supply-side options also may be better able to adapt to future growth uncertainties. Notwithstanding the benefits of purchasing, such a strategy has risks associated with it. By entering into a firm long-term purchased power contract that contains a fixed-cost component, utilities can incur substantial market, operating, regulatory, and financial risks. Moreover, regulatory treatment of purchased power removes any upside potential that might help offset the risks. Utilities are not compensated through incentive rate-making; rather, purchased power is recovered dollar-for-dollar as an operating expense.

To analyze the financial impact of purchased power, Standard & Poor's first calculates the net present value of future annual capacity payments (discounted at 10%). This represents a potential debt equivalent—the off-balance-sheet obligation that a utility incurs when it enters into a long-term purchased power contract. However, Standard

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& Poor's adds to the utility's balance sheet only a portion of this amount, recognizing that such a contractual arrangement is not entirely the equivalent of debt. What percentage is added is a function of Standard & Poor's qualitative analysis of the specific contract and the extent to which market, operating, and regulatory risks are borne by the utility (the risk factor). For unconditional, take-orpay contracts, the risk factor range is from 40%-80%, with the average hovering around 60%. A lower risk factor is typically assigned for system purchases from coal-fired utilities and a higher risk factor is usually designated for unit-specific nuclear purchases. The range for take-and-pay performance obligations is between 10%-50%.

Gas utilities

For gas distribution utilities, long-term supply adequacy obviously is critical, but the supply role has become even more important in credit analysis since the Federal Energy Regulatory Commission's Order 636 eliminated the interstate pipeline merchant business. This thrust gas supply responsibilities squarely on local gas distributors. Standard & Poor's has always believed distributor management has the expertise and wherewithal to perform the job well, but the risks are significant since gas costs are such a large percentage of total utility costs. In that regard, it is important for utilities to get preapprovals of supply plans by state regulators or at least keep the staff and commissioners well informed. To minimize risks, a well-run program would diversify gas sources among different producers or marketers, different gas basins in the U.S. and Canada, and different pipeline routes. Also, purchase contracts should be firm, with minimal take-or-pay provisions, and have prices tied to an industry index. A modest percentage of fixed-price gas is not unreasonable. Contracts, whether of gas purchases or pipeline capacity, should be intermediate term. Staggering contract expirations (preferably annually) provides an opportunity to be an active market player. A modest degree of reliance on spot purchases provides flexibility, as does the use of market-based storage. Gas storage and on-property gas resources such as liquefled natural gas or propane air are effective peak-day and peakseason supply management tools.

Since pipeline companies no longer buy and sell natural gas and are just common carriers, connections with varied reserve basins and many wells within those basins are of great importance. Diversity of sources helps offset the risks arising from the natural production declines eventually experienced by all reserve basins and individual wells. Moreover, such diversity can enhance a pipeline's attractiveness as a transporter of natural gas to distributors and end users seeking to buy the most economical gas available for their needs.

Water utilities

Nearly all water systems throughout the U.S. have ample long-term water supplies. Yet to gain comfort, Standard & Poor's assesses the production capability of treatment plants and the ability to pump water from underground anulfers in relation to the usage demands from consumers.

Having adequate treated water storage facilities has become important in recent years and has helped many systems meet demands during peak summer periods. Of interest is whether the resources are owned by the utility or purchased from other utilities or local authorities. Owning properties with water rights provides more supply security. This is especially so in states like California where water allocations are being reduced, particularly since recent droughts and environmental issues have created alarm. Since the primary cost for water companies is treatment, it makes little difference whether raw water is owned or bought. In fact, compliance with federal and state water regulations is very high, and the overall cost to deliver treated water to consumers remains relatively affordable.

Asset concentration in the electric utility industry

In the electric industry, Standard & Poor's follows the operations of major generating facilities to assess if they are well managed or troubled. Significant dependence on one generating facility or a large financial investment in a single asset suggests high risk. The size or magnitude of a particular asset relative to total generation, net plant in service, and common equity is evaluated. Where substantial asset concentration exists, the financial profile of a company may experience wide swings depending on the asset's performance. Heavy asset concentration is most prevalent among utilities with costly nuclear units.

Earnings protection

In this category, pretax cash income coverage of all interest charges is the primary ratio. For this calculation, allowance for funds used during construction (AFUDC) is removed from income and interest expense. AFUDC and other such noncash items do not provide any protection for bondholders. To identify total interest expense, the analyst reclassifies certain operating expenses. The interest component of various off-balance-sheet obligations, such as leases and some purchased-power contracts, is included in interest expense. This provides the most direct indication of a utility's ability to service its debt burden.

While considerable emphasis in assessing credit protection is placed on coverage ratios, this measure does not provide the entire earnings protection picture. Also important are a company's earned returns on both equity and capital, measures that highlight a firm's earnings performance. Consideration is given to the interaction of embedded costs, financial leverage, and pretax return on capital.

Capital structure

Analyzing debt leverage goes beyond the balance sheet and covers quasi-debt items and elements of hidden financial leverage. Noncapitalized leases (including sale/leaseback obligations), debt guarantees, receivables financing, and purchased-power contracts are all considered debt equivalents and are reflected as debt in calculating capital

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structure ratios. By making debt level adjustments, the analyst can compare the degree of leverage used by each utility company.

Furthermore, assets are examined to identify undervalued or overvalued items. Assets of questionable value are discounted to more accurately evaluate asset protection.

Some firms use short-term debt as a permanent plece of their capital structure. Short-term debt also is considered part of permanent capital when it is used as a bridge to permanent financing. Seasonal, self-liquidating debt is excluded from the permanent debt amount, but this situation is rare—with the exception of certain gas utilities. Given the long life of almost all utility assets, short-term debt may expose these companies to interest-rate volatility, remarketing risk, bank line backup risk, and regulatory exposure that cannot be readily offset. The lower cost of shorter-term obligations (assuming a positively sloped yield curve) is a positive factor that partially mitigates the risk of interestrate variability. As a rule of thumb, a level of short-term debt that exceeds 10% of total capital is cause for concern.

Similarly, if floating-rate debt and preferred stock constitute over one-third of total debt plus preferred stock, this level is viewed as unusually high and may be cause for concern. It might also indicate that management is aggressive in its financial policies.

A layer of preferred stock in the capital structure is usually viewed as equity-since dividends are discretionary and the subordinated claim on assets provides a cushion for providers of debt capital. A preferred component of up to 10% is typically viewed as a permanent wedge in the capital structure of utilities. However, as rate-of-return regulation is phased out, preferred stock may be viewed by utilities—as many industrial firms would—as a temporary option for companies that are not current taxpayers that do not benefit from the tax deductibility of interest. Even now, floating-rate preferred and money market perpetual preferred are problematic; a rise in the rate due to deteriorating credit quality tends to induce a company to take out such preferred stock with debt. Structures that convey tax deductibility to preferred stock have become very popular and do generally afford such financings with equity treatment.

Cash flow adequacy

Cash flow adequacy relates to a company's ability to generate funds internally relative to its needs. It is a basic component of credit analysis because it takes cash to pay expenses, fund capital spending, pay dividends, and make interest and principal payments. Since both common and preferred dividend payments are important to maintain capital market access, Standard & Poor's looks at cash flow measures both before and after dividends are paid.

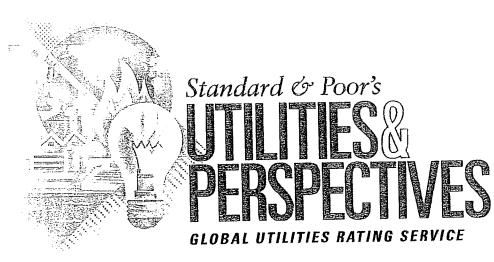
To determine cash flow adequacy, several quantitative relationships are examined. Emphasis is placed on cash flow relative to debt, debt service requirements, and capital spending. Cash flow adequacy is evaluated with respect to a firm's ability to meet all fixed charges, including capacity payments under purchased-power contracts. Despite the conditional nature of some contracts, the purchaser is obligated to pay a minimum capacity charge. The ratio used is funds from operations plus interest and capacity payments divided by interest plus capacity payments.

Financial flexibility/capital attraction

Financing flexibility incorporates a utility's financing needs, plans, and alternatives, as well as its flexibility to accomplish its financing program under stress without damaging creditworthiness. External funding capability complements internal cash flow. Especially since utilities are so capital intensive, a firm's ability to tap capital markets on an ongoing basis must be considered. Debt capacity reflects all the earlier elements: earnings protection, debt leverage, and cash flow adequacy. Market access at reasonable rates is restricted if a reasonable capital structure is not maintained and the company's financial prospects dim. The analyst also reviews indenture restrictions and the impact of additional debt on covenant tests.

Standard & Poor's assesses a company's capacity and willingness to issue common equity. This is affected by various factors, including the market-to-book ratio, dividend policy, and any regulatory restrictions regarding the composition of the capital structure.

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Last Week's Financing Activity Tesoro Petroleum's \$625 Mil. Credit Facilities Are Rated 'BB'	Special Report Is the Refinancing Challenge Over for the U.S. Energy Merchant Sector?
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Key Contacts	Forest Oil's Rating Is Lowered to 'BB-'; Off Watch, Outlook Stable



New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector Standard & Poor's also has revised its published risk adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines

New Business Profile Scores and Revised Financial Guidelines

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Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business pro-

file scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible.

Chart I

Distribution of Business Profile Scores

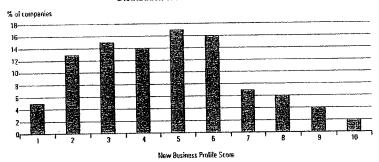
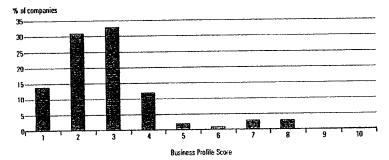


Chart 2
Transmission and Distribution—Water, Gas, and Electric



erage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score, these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

Results

Previously, 83% of U S utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk—particularly regarding management, strategy, and degree of competitive market exposure—has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business profile

Chart 3
Transmission Only—Electric, Gas, and Other

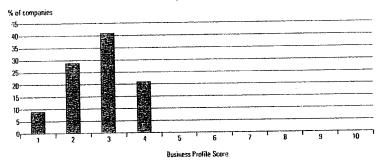
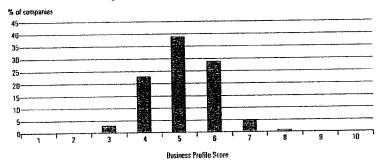


Chart 4
Integrated Electric, Gas, and Combination Utilities





file scores, as of June 2, are shown in Chart 1. The overall median business profile score is now '5'

Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been in fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- m Effectiveness of liability and liquidity management,
- Manalysis of internal funding sources;

- Return on invested capital;
- The execution record of stated business strategies,
- Accuracy of projected performance versus actual results, as well as the trend,
- Assessment of management's financial policies and attitude toward credit; and
- m Corporate governance practices

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are

- Transmission and distribution—Water, gas, and electric,
- ma Transmission only-Electric, gas, and other,
- m Integrated electric, gas, and combination utilities,
- B Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies

The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher

Chart 5
Diversified Energy and Diversified Non-Energy

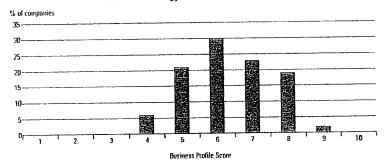
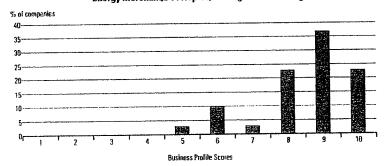


Chart 6
Energy Merchant/Developers/Trading and Marketing



See pages 16 to 19 for the company ranking list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength

Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business pro-

file scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries, or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the

Table 1

Table 1								
Revised Financi	ial Guideli	ines						
Funds from operation	ns/interest co	overage (x)						
Business Profile		AA	p		_	BB	E	BB
1	3	25	25	1.5	15	1		
2	4	3	3	2	2	1		_
3	45	3.5	3.5	2.5	2.5	15	1.5	1
4	5	42	4.2	3.5	35	2.5	2.5	15
5	55	45	4.5	38	38	28	28	1.8
6	8	5 2	5.2	42	42	3	3	2
7	8	6.5	65	45	4.5	32	32	2.2
8	10	75	75	55	55	3.5	35	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3
Funds from operatio	n/total debt (%}						
Business Profile		AA		Α	-	BB _		BB
1	20	15	15	10	10	5		
2	25	20	20	12	12	8	10	-
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25
Total debt/total cap	ital (%)							
Business Profile		AA		A	_	BB	-	BB
1	4B	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	5B	62
7	30	38	38	45	45	55	55	6D
В	25	35	35	42	42	52	52	5B
9			32	4D	40	50	50	55
10			25	35	35	48	48	52

Feature Article

dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the singlemost important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for deter-

mining the proportion or weighting that each subsidiary represents in the overall business profile score Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case.

Ronald M. Barone
New York (1) 212-438-7662
Richard W. Cortright, Jr.
New York (1) 212-438-7665
Suzanne G. Smith
New York (1) 212-438-2106
John W. Whittock
New York (1) 212-438-7678
Andrew Watt
New York (1) 212-438-7868
Arthur F. Simonson
New York (1) 212-438-2094

PROXY GROUP OF EIGHT AUS UTILITY REPORTS WATER COMPANIES CAPITALIZATION AND FINANCIAL STATISTICS (1) 2002 - 2006, INCLUSIVE

	2006	2005 (MILLIC	2004 DNS OF DOLLARS)	2003	2002	
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED TOTAL PERMANENT CAPITAL SHORT-TERM DEBT TOTAL CAPITAL EMPLOYED	\$532.756 <u>\$22.725</u> \$555.480	\$478.132 <u>\$23.094</u> \$501.226	\$445.177 <u>\$19.724</u> <u>\$465.901</u>	\$400.276 <u>\$25,263</u> \$425.539	\$348.252 <u>\$28.644</u> \$375.895	
INDICATED AVERAGE CAPITAL COST RATES (2) TOTAL DEBT PREFERRED STOCK CAPITAL STRUCTURE RATIOS	6.32 % 5.12	6.15 % 5.05	6.18 % 4.79	6,30 % 4.11	6.54 % 5.52	5 YEAR AVERAGE
BASED ON TOTAL PERMANENT CAPITAL. LONG-TERM DEBT PREFERRED STOCK COMMON EQUITY TOTAL	48.72 % 0.32 <u>50.96</u> 100.00 %	50.93 % 0.36 48.71 100.00 %	50.26 % 0.39 49.35 100.00 %	50.81 % 0.46 <u>48.73</u> 100.00 %	50.65 % 0.51 <u>48.84</u> 100.00 %	50.27 % 0.41 <u>49.32</u> 100.00 %
BASED ON TOTAL CAPITAL: TOTAL DEBT, INCLUDING SHORT-TERM PREFERRED STOCK COMMON EQUITY TOTAL	50.20 % 0.32 <u>49.48</u> 100.00 %	52.45 % 0.35 47.20 100.00 %	52.01 % 0.38 <u>47.51</u> 109.00 %	53.82 % 0.43 4 <u>5.75</u> 100.00 %	53.62 % 0.47 45.91 100.00 %	52.42 % 0.39 <u>47.19</u> 100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED EARNINGS / PRICE RATIO MARKET / AVERAGE BOOK RATIO DIVIDEND YIELD DIVIDEND PAYOUT RATIO	3.85 % 268.90 2.60 71.58	4.13 % 250.20 2.86 70.53	4.57 % 227.38 3.35 70.70	4.34 % 227.15 3.28 80.68	4.93 % 220.24 3.53 72.48	4.36 % 238.77 3.12 73.19
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	10.13 %	9.99 %	10,13 %	9.59 %	10.56 %	10.08 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	4.05 X	4.02 X	4.22 X	3.81 X	3.61 X	3,94 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	18.91 %	18.16 %	19.60 %	16.97 %	16.43 %	18.01 %
TOTAL DEBT / TOTAL CAPITAL	50.20 %	52.45 %	52.01 %	53.82 %	53.62 %	52.42 %

See Page 2 for notes.

Exhibit No. ____ Schedule PMA-3 Page 2 of 3

Proxy Group of Eight AUS Utility Reports Water Companies Capitalization and Financial Statistics 2002-2006, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual total debt interest or preferred stock dividends booked to average of beginning and ending total debt or preferred stock reported to be outstanding.
- (3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges.
- (4) Funds from operations (as defined in Note 3) as a percentage of total debt.

Selection Criteria:

The basis of selection was to include those water companies: 1) which are included in the Water Company Group of AUS Utility Reports (July 2007); 2) which have Value Line (Standard Edition) five-year EPS growth rate projections or Reuters consensus five-year EPS growth rate projections; and 3) which have more than 70% of their 2006 operating revenues derived from water operations.

The following eight water companies met the above criteria:

American States Water Co.
Aqua America, Inc.
Artesian Resources, Inc.
California Water Service Group
Connecticut Water Service inc.
Middlesex Water Co.
SJW Corporation
York Water Co.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research

Insight Database

EDGAR Online's I-Metrics Database

Company Annual Forms 10K

Utilities Services of South Carolina, Inc. Capital Structure Based upon Total Permanent Capital for the Proxy Group of Eight AUS Utility Reports Water Companies for the Years 2002 through 2006

	2006	2005	2 <u>004</u>	2003	2002	5 YEAR AVERAGE
						
American States Water Co.		F0 45 N	47.75.0/	52.05 %	53.40 %	50.45 %
Long-Term Debt	48.61 %	50 46 %	47 75 % 0 00	0.00	0.00	0.00
Preferred Stock	0.00	0 00		47.95	46.60	49.55
Common Equity	<u>51.39</u>	<u>49.54</u>	52.25		100.00 %	100.00 %
Total Capital	100.00 %	100.00 %	<u>100.00</u> %	100.00 %	100.00 76	100.00
Aqua America, Inc.			50.70 8/	52.76 %	55.58 %	53.05 %
Long-Term Debt	51.56 %	52.61 %	52.72 %	0.07	0.06	0.08
Preferred Stock	0.09	0 09	0.08		44,36	46.88
Common Equity	<u>48.35</u>	47.30	47.20	47.17	100.00 %	100.00 %
Total Capital	<u>100.00</u> %	100.00 %	<u>100.00</u> %	100.00 %	100.00 %	100.00 /8
Artesian Resources Corp.				60.47 %	55.62 %	59.58 %
Long-Term Debt	59 92 %	61 58 %	60.30 %		0.17	0.05
Preferred Stock	0.00	0 00	0.00	0.07	44.21	40.37
Common Equity	40.08	38.42	39.70	<u>39.46</u>		100.00 %
Total Capital	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
California Water Service Group			40.00 W	50 A4 B/	55.3 6 %	49.82 %
Long-Term Debt	44 58 %	48 07 %	48.66 %	52.41 % 0.67	0.77	0.63
Preferred Stock	0.50	0.61	0.61	46.92	43.87	49.55
Common Equity	<u>54.92</u>	<u>51.32</u>	50.73		100,00 %	100.00 %
Total Capital	100.00 %	100.00 %	<u>100.00</u> %	<u>100.00</u> %	100.00	100.00
Connecticut Water Service, Inc.			42 93 %	43.58 %	44.57 %	44.23 %
Long-Term Debt	44 44 %	45 65 %	42 93 76 0 54	0.57	0.58	0.52
Preferred Stock	0 44	0.49		55,8 5	54.85	55.24
Common Equity	<u>55,12</u>	53.86	56.53	100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	100.00 %	<u>100.00</u> %	100.00 76	100.00	100100
Middlesex Water Company	10.00.01	55.68 %	53 99 %	54.05 %	52 24 %	53.19 %
Long-Term Debt	49.98 %	1.70	188	2.23	2 41	1.94
Preferred Stock	1.49		44.13	43.72	45,35	44,87
Common Equity	48.53	42.62	100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	100.00 %	100.00 %	100.00	100.00	3
SJW Corp.	** ** **	42.63 %	43 77 %	45.64 %	41.72 %	43.12 %
Long-Term Debt	41.83 %	0.02	0.04	0.05	0.07	0.04
Preferred Stock	0 01		56.19	54.31	58.21	56.84
Common Equity	<u>58.16</u>	57.35	100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	<u>100.00</u> %	100.00	100.00		
York Water Co.	40.00.0/	50.71 %	51.94 %	45.53 %	46.76 %	48.75 %
Long-Term Debt	48.82 %	0.00	0.00	0.00	0.00	0.00
Preferred Stock	0 00	49.29	48.06	54,47	53.24	51.25
Common Equity	51.18		100.00 %	100.00 %	100.00 %	100.00 %
Total Capital	<u>100.00</u> %	100.00 %	100.00 %	100.00		
Proxy Group of Eight AUS						
Utility Reports Water Companies				50 81 %	50.65 %	50.27 %
Long-Term Debt	48 72 %	50 93 %	50 26 %	50.81 % 0.46	0.51	0.41
Preferred Stock	0.32	0.36	0 39	48.73	48,84	49.32
Common Equity	50.96	48.71	49.35	48.73 100.00 %	100.00 %	100.00 %
Total Capital	100.00 %	100.00 %	100.00 %	100,00	100.00 //	

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base Company Annual Forms 10-K

PROXY GROUP OF FOUR VALUE (STANDARD EDITION) LINE WATER COMPANIES CAPITALIZATION AND FINANCIAL STATISTICS (1) 2002 - 2006 INCLUSIVE

	2006	2005 2004 (MILLIONS OF DOLLARS		2003	2002	
CAPITALIZATION STATISTICS						
AMOUNT OF CAPITAL EMPLOYED TOTAL PERMANENT CAPITAL SHORT-TERM DEBT TOTAL CAPITAL EMPLOYED	\$860.957 \$37.788 \$898.745	\$773.683 \$41.376 \$815.059	\$719.252 <u>\$32.529</u> \$751.781	\$628,903 \$39,728 \$668,632	\$541.882 \$46.623 \$588,505	
INDICATED AVERAGE CAPITAL COST RATES (2) TOTAL DEBT PREFERRED STOCK	6.65 % 4.81	6.39 % 4.27	6.28 % 3.38	6.36 % 2.53	6.39 % 3.73	5 YEAR AVERAGE
CAPITAL STRUCTURE RATIOS BASED ON TOTAL PERMANENT CAPITAL. LONG-TERM DEBT PREFERRED STOCK COMMON EQUITY TOTAL	47.15 % 0.19 52.66 100.00 %	49.45 % 0.22 <u>50.33</u> 100.00 %	49.42 % 0.24 <u>50.34</u> 100.00 %	51.43 % 0.40 48.17 100.00 %	55.35 % 0.39 <u>44.26</u> 100.00 %	50.56 % 0.29 49.15 100.00 %
BASED ON TOTAL CAPITAL: TOTAL DEBT, INCLUDING SHORT-TERM PREFERRED STOCK COMMON EQUITY TOTAL	48.56 % 0.19 <u>51.25</u> 100.00 %	50.93 % 0.22 48.85 100.00 %	51.13 % 0.25 48.62 100.00 %	53.69 % 0.39 <u>45.92</u> 100.00 %	58.05 % 0.38 41.57 100.00 %	52.47 % 0.29 <u>47.24</u> 100.00 %
FINANCIAL STATISTICS						
FINANCIAL RATIOS - MARKET BASED EARNINGS / PRICE RATIO MARKET / AVERAGE BOOK RATIO DIVIDEND YIELD DIVIDEND PAYOUT RATIO	3.15 % 262.50 2.15 87.47	3.88 % 248.19 2.42 61.18	3.88 % 222.69 2.79 71.81	4.12 % 220.49 2.91 74.09	4,96 % 223.08 3.10 61.40	4.00 % 235.39 2.67 67.19
RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY	8.15 %	9.19 %	8.36 %	9,19 %	10.91 %	9.16 %
FUNDS FROM OPERATIONS / INTEREST COVERAGE (3)	3.94 X	4.16 X	4.40 X	3.81 X	3.67 X	4.00 X
FUNDS FROM OPERATIONS / TOTAL DEBT (4)	19.05 %	19.61 %	20.38 %	17.79 %	15.81 %	18.53 %
TOTAL DEBT / TOTAL CAPITAL	48.56 %	50.93 %	51.13 %	53,69 %	58.05 %	52.47 %

See Page 2 for notes.

Exhibit No. ____ Schedule PMA-4 Page 2 of 3

Proxy Group of Four Value Line (Standard Edition) Water Companies Capitalization and Financial Statistics 2002-2006, Inclusive

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual total debt interest or preferred stock dividends booked to average of beginning and ending total debt or preferred stock reported to be outstanding.
- (3) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges divided by interest charges.
- (4) Funds from operations (as defined in Note 3) as a percentage of total debt.

Selection Criteria:

The basis of selection was to include those water companies: 1) which are included in the Value Line Investment Survey (Standard Edition).

The following four water companies met the above criteria:

American States Water Co. Aqua America, Inc. California Water Service Group Southwest Water Company

Source of Information:

Standard & Poor's Compustat Services, Inc., PC Plus / Research

Insight Database

EDGAR Online's I-Metrics Database Company Annual Forms 10K

Utilities Services of South Carolina, Inc. Capital Structure Based upon Permanent Total Capital for the Proxy Group of Four Value Line (Standard Edition) Water Companies for the Years 2002 through 2006

	2006	2005	2004	2003	2002	5 YEAR AVERAGE
American States Water Co. Long-Term Debt Preferred Stock Common Equity Total Capital	48.61 % 0.00 51.39 100.00 %	50 46 % 0.00 49.54 100.00 %	47.75 % 0 00 <u>52.25</u> 100.00 %	52 05 % 0 00 47.95 100.00 %	53.40 % 0.00 46.60 100.00 %	50.45 % 0.00 <u>49.55</u> 100.00 %
Aqua America, Inc. Long-Term Debt Preferred Stock Common Equity Total Capital	51 56 % 0 09 <u>48.35</u> 100.00 %	52.61 % 0.09 <u>47.30</u> 100.00 %	52 72 % 0 08 <u>47.20</u> 100.00 %	52.76 % 0.07 47.17 100.00 %	55 58 % 0.06 44.36 100.00 %	53 05 % 0 08 <u>46.88</u> 100.00 %
California Water Service Group Long-Term Debt Preferred Stock Common Equity Total Capital	44.58 % 0.50 <u>54.92</u> 100.00 %	48 07 % 0.61 <u>51.32</u> 100.00 %	48 66 % 0 61 50.73 100.00 %	52.41 % 0.67 46.92 100.00 %	55.36 % 0.77 43.87 100.00 %	49 82 % 0.63 <u>49.55</u> 100.00 %
Southwest Water Company Long-Term Debt Preferred Stock Common Equity Total Capital	43 85 % 0 15 56.00 100.00 %	46.67 % 0.17 53.16 100.00 %	48 53 % 0 28 51.19 100.00 %	48.50 % 0.85 50.65 100.00 %	57 07 % 0.74 42.19 100.00 %	48 92 % 0 44 <u>50.64</u> 100.00 %
Proxy Group of Four Value Line (Std. Ed.) Water Companies Long-Term Debt Preferred Stock Common Equity Total Capital	47.15 % 0.19 52.66 100.00 %	49.45 % 0.22 <u>50.33</u> 100.00 %	49 42 % 0 24 50.34 100.00 %	51.43 % 0.40 48.17 100.00 %	55.35 % 0 39 <u>44.26</u> 100.00 %	50 56 % 0 29 <u>49.15</u> 100.00 %

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Data Base

Utilities Services of South Carolina, Inc. Hypothetical Example of the Inadequacy of A DCF Return Rate Related to Book Value When Market Value is Greater / Less than Book Value

1

3

Line No.	_	Mar	ket Value	N	ook Value with Aarket to Book Ratio of 180%	M	ock Value with arket to Book Ratio of 80%
1.	Per Share	\$	24.00	\$	13.33	\$	30.00
2.	DCF Cost Rate (1)		10.00%		10.00%		10.00%
3.	Return in Dollars	\$	2.400	\$	1.333	\$	3.000
4.	Dividends (2)	\$	0.840	\$	0.840	\$	0.840
5.	Growth in Dollars	\$	1.560	\$	0.493	\$	2.160
6.	Return on Market Value		10.00%		5.55% (3)		12.50% (4)
7	Rate of Growth on Market Value		6.50% (5)		2.05% (6)		9.00% (7)

- Notes: (1) Comprised of 3.5% dividend yield and 6.5% growth.
 - (2) $$24.00 \times 3.5\%$ yield = \$0.840.
 - (3) \$1.333 / \$24.00 market value = 5.55%.
 - (4) \$3.000 / \$24.00 market value = 12.50%.
 - (5) Expected rate of growth per market based DCF model.
 - (6) Actual rate of growth when DCF cost rate is applied to book value (\$1.333 possible earnings \$0 840 dividends = \$0.493 for growth / \$24.00 market value = 2.05%).
 - (7) Actual rate of growth when DCF cost rate is applied to book value (\$3.000 possible earnings \$0.840 dividends = \$2.160 for growth / \$24.00 market value = 9.00%).

<u>Utilities Services of South Carolina, Inc.</u> Indicated Common Equity Cost Rate Through Use of the Single Stage Discounted Cash Flow Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies

Based upon Historical and Projected Growth in DPS, EPS, and BR+SV

	<u>.</u> 1	2	3	4	5
Proxy Group of Eight AUS Utility	Average Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated Common Equity Cost Rate (5)
Reports Water Companies					
American States Water Co Aqua America, Inc Artesian Resources Corp California Water Service Group Connecticut Water Service Inc Middlesex Water Company SJW Corp York Water Co Average	27 % 21 29 32 36 37 19 27	01 % 01 01 01 01 01 01 01 01 01	28 % 22 30 33 37 38 20 2.8 3.0 %	5 0 % 7 7 6 0 4 6 5 2 3 8 7 7 6 0 5 8 %	78 % 99 90 79 89 76 97 8.8 9.3 % (6)
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co Aqua America, Inc California Water Service Group Southwest Water Company Average	27 % 21 32 1.8 2.5 %	01 % 01 01 0.1 0.1 %	28 % 22 33 1.9 2.6 %	50 % 77 46 7.6 6.2 %	7 6 % 9 9 7 9 9.5 9.7 % (6)
	Based upon Proj	ected Growth in E	PS		
	1	<u>2</u>	3	4	<u>5</u>
	Average Dividend Yield (1)	Dividend Growth Component (2)	Adjusted Dividend Yield (3)	Growth Rate (4)	Indicated Common Equity Cost Rate (5)
Proxy Group of Eight AUS Utility Reports Water Companies					
American States Water Co Aqua America, Inc Artesian Resources Corp California Water Service Group Connecticut Water Service Inc Middlesex Water Company SJW Corp York Water Co	27 % 21 29 32 36 37 19 27	0.1 % 0.1 0.1 0.1 0.2 0.1 0.1 0.1 %	28 % 22 30 33 38 38 20 28 20 %	70 % 8.9 8.0 7 4 100 5.5 100 7.0 8.0 %	98 % 111 110 107 138 93 120 9.8 10.3 % (6)
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co Aqua America, Inc California Water Service Group Southwest Water Company Average	27 % 21 32 1.8 2.5 %	01% 01 01 01 01	28 % 22 33 1.9 2.6 %	7 0 % 8 9 7 4 10.5 8.5 %	98 % 11 1 10 7 12.4 10.5 % (6) (7)
Conclusion Proxy Group of Eight AUS Utility Reports Water Companies					9.8 %
Proxy Group of Four Value Line (Standard Edition) Water Compenies					10.1 %

- (1) From Schedule PMA-7 of this Exhibit
- (2) This reflects a growth rate component equal to one-half the conclusion of growth rate (from page 1 of Schedule PMA-9 of this Exhibit) x Column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for American States Water Co., 2.7% x (1/2 x 5.0%) = 0.1%
- (3) Column 1 + Column 2
- (4) From page 1 Schedule PMA-9 of this Exhibit
- (5) Column 3 + Column 4
- (6) Includes only those indicated common equity cost rates which are greater than 8 6%, i.e. 200 basis points above the prospective yield on A rated Moody's public utility bonds of 6 6% (from page 1 of Schedule PMA-10 of this Exhibit)
- (7) Excludes Connecticut Water Service Inc 's result of 13 8% and Southwest Water Company's result of 12 4%, because in Ms. Altern's opinion it is unlikely that a water company would be authorized a return rate on common equity of 12 0% or greater based upon the DCF model in the immediate future

Utilities Services of South Carolina, Inc. Derivation of Dividend Yield for Use in the Discounted Cash Flow Model

		Dividend Yield	
		Average	_
		of	Average
	Spot	Last 3	Dividend
	(7/10/2007) (1)	Months (2)	Yield (3)
D. O. LEISLAND DER			
Proxy Group of Eight AUS Utility Reports Water Companies			
Reports Water Companies			0.7.0/
American States Water Co.	2.7. %	2.6 %	2.7 %
Aqua America, Inc.	2.1	2.0	2.1
Artesian Resources Corp.	3.5	2.2	2.9
California Water Service Group	3.2	3.1	3.2
Connecticut Water Service Inc.	3.5	3.6	3.6
Middlesex Water Company	3.7	3.6	3.7
SJW Corp.	1.9	1.8	1.9
York Water Co.	2.7	2.6	2.7
Average	2.9 %	2.7 %	2.9 %
Proxy Group of Four Value Line			
(Standard Edition) Water Companies			0 7 0
American States Water Co.	2.7 %	2.6 %	2.7 %
Aqua America, Inc.	2.1	2.0	2.1
California Water Service Group	3.2	3.1	3.2
Southwest Water Company	1.8	1.8	1.8
Average	<u>2.5</u> %	2.4 %	<u>2.5</u> %

Notes: (1) The spot dividend yield is the current annualized dividend per share divided by the spot market price on 7/10/07.

- (2) The average 3-month dividend yield was computed by relating the indicated annualized dividend rate and market price on the last trading day of each of the three months ended June 30, 2007.
- (3) Equal weight has been given to the 3-month average and spot dividend yield. This provides recognition of current conditions, but does not place undue emphasis thereon.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus Research Insight Database

EDGAR Online's I-Metrics Database

finance.yahoo.com

Utilities Services of South Carolina, Inc. Current Institutional Holdings (1) and Individual Holdings (2) for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

	<u>1</u>	<u>2</u>
	July 2007 Percentage of Institutional Holdings	July 2007 Percentage of Individual Holdings (1)
Proxy Group of Eight AUS Utility Reports Water Companies		
American States Water Co.	54.8 %	45.2 %
Aqua America	43.5	56.5
Artesian Resources Corp.	16.1	83.9
California Water Service Group	43.0	57.0 81.5
Connecticut Water Service Inc.	18.5	75.6
Middlesex Water Co.	24.4 42.6	73.0 57.4
SJW Corp.	10.9	89.1
York Water Co.		
Average	<u>31.7</u> %	<u>68.3</u> %
Proxy Group of Four Value Line Water Companies		
American States Water Co.	54.8 %	45.2 %
Aqua America	43.5	56.5
California Water Service Group	43.0	57.0 40.0
Southwest Water Company	50.1	49.9
Average	<u>47.9</u> %	<u>52.1</u> %

Notes

(1) (1 - column 1).

Source of Information: today.reuters.com, updated July 11, 2007

Utilities Services of South Carolina, Inc. Historical and Projected Growth

	1	2	3	4	5	<u>5</u>		7	<u>8</u>	ã	10	11	12	13 Average of Midpoint and
	Value Line H Year Grow	istoncal Five	Five Year Historical BR + SV (2)	Value Line Pro 05 to 2009- Rate	11 Growth	Reuters Mean Projected Fi Growth F	ve Year	Average Projected Five Year Growth Rate in EPS (3)	Projected Five Year BR + SV (4)	Ra Low	inge of Growth F High	Rates Midpoint	Average of all Growth Rales	Average of all Growth Rates (9)
	OPS	EPS		OPS	EPS	EPS	Est.							
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, inc. Arlessan Resources Corp. Californal Water Service Inc. Middlesex Water Company SJW Corp. York Water Co. Average	1.0 % 6.5 3.8 (5) 1.0 1.0 2.0 5.5 5.2 (5) 3,3 %	(2.5) % 8.5 6.3 (5) (0.5) (0.3) 3.5 7.5 6.9 (5)	4.4 % 7.9 5.7 4.9 3.4 4.2 7.1 4.7 5.3 %	3.0 % 9.5 NA 1.0 NA NA NA NA	9.0 % 7.5 NA 6.5 NA NA NA NA	5.0 10.3 8.0 8.2 10.0 5.5 10.0 7.0 8.0 %	[1] [6] [2] [5] [1] [2] [1] [2]	7.0 % 8.9 8.0 7.4 10.0 5.5 10.0 7.0	7.1 % 4.6 NA 5.8 NA NA NA NA NA NA NA NA	1.0 % (8) 4.6 3.8 1.0 (8) 1.0 (8) 2.0 5.5 4.7 3.0 %	9.0 % (8) 10.3 8.0 8.2 10.0 5.5 10.0 7.0 8.5 %	5.0 % 7.5 5.9 4.5 5.5 3.6 7.3 5.9 5.8 %	4.9 % (8 7.8 6.0 4.6 (8) 3.3 7.5 6.0 5.7 %	5.0 % 7.7 6.0 4.6 5.2 3.8 7.7 6.0 5.8 %
Proxy Group of Four Value Line (Standard Edition) Water Companies American States Water Co. Aque America, Inc. Californie Water Service Group Southwest Water Company Average	1.0 % 6.5 1.0 10.0 4.6 %	(2.5) % 8.5 (0.5) 1.5 5.0 % (8)	4.4 % 7.9 4.9 11.9	3.0 % 9.5 1.0 9.5 5.8 %	9.0 % 7.5 6.5 11.0	5.0 % 10.3 8.2 19.0 8.4 %	(1) [6] (5) (3)	7.0 % 8.9 7.4 10.5	7.1 % 4.6 5.8 5.2 5.7 %	1.0 % (8' 4.6 1.0 (8) 1.5	9.0 % (8) 10.3 6.2 (8) 11.9 9.9 %	5.0 % 7.5 4.6 6.7 6.0 %	4.9 % (8 7.8 4.6 (8) 8.4 5.4 %	5.0 % 7.7 4.5 7.6 6.2 %

Notes: (1) As shown on pages 8 through 15 of this Schedule. Historical growth rates are five-year compound growth rates.
(2) From page 2 of this Schedule.
(3) Average of Columns 5 and 6.
(4) From page 6 of this Schedule.
(5) Calculated using the same methodology as Value Line (investment Survey, i.e., three-year base periods ending 2005.
(6) Average of Columns 1, 2, 3, 4, 5, 6, and 8.
(7) From Column 7.
(8) Excludes negatives.

(8) Excludes negatives.
(9) Average of Column 11 and Column 12.

Source of information: Value Line Investment Survey, April 27, 2007 stocsk.us.reuters.com, July 11, 2007

Exhibit No. Schedule PMA-9 Page 2 of 15

<u>Utilities Services of South Carolina, Inc.</u> <u>Calculation of Historical BR + SV</u>

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	BR (1)	S Factor (2)	V Factor (3)	SV (4)	BR + SV (5)
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co.	3.2 %	2.5 %	47.1 %	1.2 %	4.4 %
Aqua America, Inc.	5.1	4.0	69.5	2.8	7.9
Artesian Resources Corp.	2.7	6.2	47.6	3.0	5.7 4.9
California Water Service Group	1.5	6.5	52.6	3.4 0.9	4.9 3.4
Connecticut Water Service Inc.	2.5	1.6 5.4	58.8 57.0	0.9 3.1	4.2
Middlesex Water Company	1.1 7.1	5.4 0.0	50.0	0.0	7.1
SJW Corp. York Water Co	2.4	3.5	66.8	2.3	4.7
Average	3.2 %	3.7 %	56.2 %	2.1 %	%
Proxy Group of Four Value Line (Standard Edition) Water Companies					
American States Water Co.	3.2 %	2.5 %	47.1 %	1.2 %	4.4 %
Agua America, Inc.	5.1	4.0	69.5	2.8	7.9
California Water Service Group	1.5	6.5	52.6	3.4	4.9
Southwest Water Company	3.8	15.2	53.3	<u>8.1</u>	11.9
Average	3.4 %	<u>7.1</u> %	_55.6_%	3.9 %	7.3 %

- Notes: (1) From column 6, page 3 of this Schedule.
 (2) From column 12, page 4 of this Schedule.
 (3) From column 7, page 5 of this Schedule.
 (4) Column 2 * column 3.
 (5) Column 1 + column 4.

3.4 %

<u>Utilities Services of South Carolina, Inc.</u> Historical Internal Growth Rate (1), i.e., BR, for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Valve Line (Standard Edition) Water Companies for the Years 2002 - 2005

	j	2	<u>3</u>	4	<u>5</u>	<u>6</u>
						Five-Year Average 2000-2005 Internal Growth
	2006	2005	2004	2003	2002	Rate. i.e., BR
roxy Group of Eight AUS Utility eports Water Companies						
merican States Water Co.	8 43 %	10 38 %	799 %	5 59 %	983 %	
ommon Equity Return Rate etention Ratio	32 40	43 59	25 17	(12 98)	35 D4	
nternal Growth Rate (1)	2 73	4 52	2 01	(0 73)	3 44	32 % (2)
qua America, Inc.	40.54 Br	1169 %	11 39 %	12 30 %	13 92 %	
ommon Equity Return Rate etention Ratio	10 61 % 36 93	43 90	42 75	43 61	45 22	
nternal Growth Rate (1)	3 92	5 13	4 87	5 36	6 29	5 1
rtesian Resources Corp.						
common Equity Return Rate	10 15 %	8 93 %	8 18 %	7.41 %	9.67 %	
tetention Ratio	38 82	31 08	25 80	19 24 1.43	34.96 3.38	27
nternal Growth Rate (1)	3 94	2 78	2 11	1.40	3 30	21
alifornia Water Service Group	7 56 %	931 %	972 %	8 68 %	9 56 %	
common Equity Return Rate Retention Ratio	14 21	931 % 2581	22 97	879	10.13	
nternal Growth Rate (1)	1 07	2 40	2 23	0 76	0 97	15
Connecticut Water Service Inc.						
Common Equity Return Rate	7 02 %	784 %	10 93 %	11 23 %	11 60 %	
Retention Ratio Internal Growth Rate (1)	(5 16) (0 36)	4 98 0 39	29 02 3 17	28 82 3 24	28 20 3 27	2 5 (2)
	, ,					
Middlesex Water Company	8 55 %	8 45 %	937 %	8 17 %	10.10 %	
Common Equity Return Rate Retention Ratio	16 35	6 49	9 95	(6 51)	13 33	
nternal Growth Rate (1)	1 40	0 55	0 93	(0 53)	1 35	1 1 (2)
SJW Corp.				4.00.0	0.45.5	
Common Equity Return Rate	18 19 % 72 66	11 48 % 55 23	11 27 % 52 90	1168 % 5256	9 40 % 40 94	
Retention Ratio Internal Growth Rate (1)	13 22	6 34	5 96	6 14	3 85	7.1
York Water Co.						
Common Equity Return Rate	10 52 %	1185 %	12 17 %	11 66 %	10 37 %	
Retention Ratio	20 87	24 70	25 86 3 15	21 04 2 45	12.32 1.28	2.4
internal Growth Rate (1)	2 20	2 93	J 15	2 40	120 _	
Average						3.2 %
Proxy Group of Four Value Line (Slandard Edition) Water						
American States Water Co.						
Common Equity Return Rate	8 43 %	10 38 %	799 %	5 59 %	983 %	
Retention Ratio	32 40	43 59 4 52	25 17 2 01	(12.98) (0.73)	35.04 3.44	3 2 % (2)
Internal Growth Rate (1)	2 73	4 32	201	(0.13)	V 17	0 L /9 (E/
Aqua America, Inc. Common Equity Return Rate	10 61 %	1169 %	11 39 %	12 30 %	13.92 %	
Retention Ratio	36 93	43 90	42 75	43 61	45.22	
Internal Growth Rate (1)	3 92	5 13	4 87	5 36	6.29	5 1
				0 ** 0.	n se es	
California Water Service Group	7 56 %		9 72 % 22 97	8.68 % 8.79	9 56 % 10.13	
California Water Service Group Common Equity Return Rate		25 81	22 97	0.76	0.13	1.5
Common Equity Return Rate Retention Ratio	14 21 1 07	2 40	2 23	0.76	0 97	
Common Equity Return Rate Retention Ratio Internal Growth Rate (1)			2 23	0.76	0 97	
Common Equity Return Rate Retention Ratio Internal Growth Rate (1) Southwest Water Company		2 40	4 40 %	10 20 %	10.32 %	
Common Equity Return Rate Retention Ratio	1 07	2 40				3.8

Notes: (1) The internal growth rate is calculated by multiplying the common equity return rate by the retention ratio (100% minus the dividend payout ratio) All data are on a consolidated basis

Average

⁽²⁾ Excludes negatives

Utilities Services of South Carolina, Inc. Calculation of Five Year Average Growth in Common Shares Outstanding (1), i.e., S Factor

Calculation of Five Year Average Growth in Common Shares Constanting (1) 16. 9 1 0000												
	1	2	3	<u>4</u>	5	6	7	8	ã	<u>10</u>	11	<u>12</u> Five Year
	2001 Common Shares Outstanding (1)	01-02 Growth	2002 Common Shares Outstanding (1)	02-03 Growth	2003 Common Shares Outstanding (1)	03-04 Growth	2004 Common Shares Outstanding (1)	04-05 Growth	2005 Common Shares Outstanding (1)	05-06 Growth	2006 Common Shares Outstanding (1)	Average Common Share Growth
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, Inc. Artesian Resources Corp. California Water Service Group Connecticut Water Service Inc. Middlesex Water Company SJW Corp. York Water Co. Average	15.120 113.977 4.590 15.182 7.649 10.168 18.270 9.462	0.4 % (0.7) 26.2 0.0 3.8 1.8 0.0	15.181 113.195 5.794 15.182 7.940 10.356 18.270 9.547	0.2 % 9.1 1.0 11.5 0.3 2.0 0.0	15.212 123.452 5.852 16.932 7.967 10.567 18.270 9.629	10.1 % 3.0 1.4 8.5 0.9 7.5 0.0 7.3	16.752 127.180 5.934 18.367 8.035 11.359 18.270 10.331	0.3 % 1.4 1.5 0.1 1.7 2.0 0.0 0.7	16.798 128.969 6.021 18.390 8.170 11.554 18.270 10.400	1.5 % 2.6 1.1 12.3 1.2 13.7 0.1 7.7	17.049 132.325 6.086 20.657 8.270 13.168 18.282 11.201	2.5 % 4.0 (2) 6.2 6.5 1.6 5.4 0.0 3.5 3.7 %
Proxy Group of Four Value Line (Standard Edition) Water Companies American States Water Co. Aqua America, Inc. Callfornia Water Service Group Southwest Water Company Average	15.120 113.977 15.182 14.174	0.4 % (0.7) 0.0 (3.6)	15.181 113.195 15.182 13.662	0.2 % 9.1 11.5 18 4	15.212 123.452 16.932 16.173	10.1 % 3.0 8.5 25.9	16.752 127.180 18.367 20.365	0.3 % 1.4 0.1 3.8	16.798 128.969 18.390 21.129	1,5 % 2,6 12.3 12.7	17.049 132.325 20.657 23.802	2.5 % 4.0 (2) 6.5 15.2 (2) 7.1 %

Notes: (1) Year-end shares outstanding. (2) Excludes negatives.

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Oatabase

Utilities Services of South Carolina, Inc. Calculation of the Premium/Discount of a Company's Stock Price Relative to its Book Value, i.e., V Factor

	<u>'</u>						
	1	2	3	<u>4</u>	<u>5</u>	<u>6</u>	7
	2002 Market to Book Ratio (1)	2003 Market to Book Ratio (1)	2004 Market to Book Ratio (1)	2005 Market to Book Ratio (1)	2006 Market to Book Ratio (1)	Five Year Average Market to Book Ratio	V Factor (2)
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, Inc. Artesian Resources Corp. California Water Service Group Connecticut Water Service Inc. Middlesex Water Company SJW Corp. York Water Co. Average	180.6 % 289.8 162.0 181.6 266.2 232.9 167.3 281.5	180.3 % 295.6 184.5 199.8 265.0 247.9 157.2 286.9	164.3 % 291.4 192.8 212.6 250.5 241.7 178.2 287.5	191.5 % 383.8 211.1 231.6 223.1 238.9 210.6 311.0	228.9 % 376.5 203.6 229.0 207.7 200.9 286.5 340.0	189.1 % 327.4 190.8 210.9 242.5 232.5 200.0 301.4 236.8 %	47.1 % 69.5 47.6 52.6 58.8 57.0 50.0 66.8 56.2
Proxy Group of Four Value Line (Standard Edition) Water Companies American States Water Co. Aqua America, Inc. California Water Service Group Southwest Water Company Average	180.6 % 289.8 181.6 240.3	180.3 % 295.6 199.8 206.2	164.3 % 291.4 212.6 222.5	191.5 % 383.8 231.6 185.8	228.9 % 376.5 229.0 215.6	189.1 % 327.4 210.9 214.1 235.4 %	47.1 % 69.5 52.6 53.3 55.6 %

Notes: (1) Market to Book Ratio = average of yearly high-low market price divided by the average of beginning and ending year's balance of book common equity per share.

(2) (1 - (100 / column 6)).

Source of Information: Standard & Poor's Compustat Services, Inc., PC Plus / Research Insight Database EDGAR Online's I-Metrics Database

Company Annual Forms 10-K

Utilities Services of South Carolina, Inc. Calculation of Projected BR + SV

	1	<u>2</u>	<u>3</u>	4	<u>5</u>	<u>6</u>	7	<u>8</u>	9	<u>10</u>	11
	Commor Outst a n (000				Projected 20	10 - 2012 (1)					
	Actual 2006	Projected 2010-2012	S Factor (2)	High Stock Price	Low Stock Price	Book Value	Average Stock Price (3)	V Factor (4)	SV (5)	BR (6)	BR + SV (7)
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, Inc. Artesian Resources Corp. California Water Service Group Connecticut Water Service Inc. Middlesex Water Company SJW Corp. York Water Co. Average	17.05 132.33 NA 20.66 8.27 13.17 18.28 11.20	22.00 140.00 NA 23.00 NA NA NA	5.2 % 1.1 NA 2.2 NA NA NA NA NA 2.8 %	50.00 30.00 NA 50.00 NA NA NA	35.00 19.00 NA 40.00 NA NA NA	22.25 9.30 NA 21.30 NA NA NA	\$42.50 24.50 NA 45.00 NA NA NA	47.6 % 62.0 NA 52.7 NA NA NA NA S4.1 %	2.5 % 0.7 NA 1.2 NA NA NA NA NA	4.6 % 3.9 NA 4.6 NA NA NA NA	7.1 % 4.6 NA 5.8 NA NA NA NA 5.8 %
Proxy Group of Four Value Line (Standard Edition) Water American States Water Co. Aqua America, Inc. California Water Service Group Southwest Water Company Average	17.05 132.33 20.66 23.80	22.00 140.00 23.00 30.00	5.2 % 1.1 2.2 4.7 3.3 %	\$50.00 30.00 50.00 18.00	\$35.00 19.00 40.00 12.00	\$22.25 9.30 21.30 10.50	\$42.50 24.50 45.00 15.00	47.6 % 62.0 52.7 30.0 48.1 %	2.5 % 0.7 1.2 1.4 1.5 %	4.6 % 3.9 4.6 3.8 4.2 %	7.1 % 4.6 5.8 5.2 5.7 %

NA = Not Available

Notes: (1) From pages 8 through 15 of this Schedule.

From pages a through 13 of this schedule.
 The S Factor is the six or five year compound growth rate between the 2006 and 2011 (mid-point of 2010-2012 projection) common shares outstanding.
 The Average Stock Price is the average of column 4 and column 5.
 (1 - (column 6 / column 7))

(5) Column 3 * column 8.
(6) From page 7, column 14 of this Schedule.

(7) Column 9 + column 10.

Source of Information: Value Line Investment Survey, April 27, 2007

Utilities Services of South Carolina, Inc. Projected Internal Growth Rate

		2	3	4	5	6	<u>7</u>	<u>5</u>	9	10	11	12	13	14
	1	_	4	-	-	_					2010	-2012		
	Common Equity (%) (1)	Z008 Total Capital (\$ mill) (1)	Common Equity (S.mill) (2)	Common Equity (%) (1)	2010-2012 Total Capital (\$ mill) (1)	Common Equity (5 mill) (3)	Annual Common Equity Growth Rate (4)	ROE Adjustment Factor (5)	Return on Common Equity (1)	Return on Average Common Equity (6)	EPS (1)	DPS (1)	Retention Ratio (7)	Projected internal Growth (8)
Proxy Group of Eight AUS Utility Reports Water Companies American States Water Co. Aqua America, Inc. Artsian Resources Corp California Water Service Group Connecticut Water Service Inc. Middleaex Water Company SJW Corp. Yerk Water Co. Average	51.40 % 49.20 NA 56.20 NA NA NA	\$551.60 1,873.30 NA 673.60 NA NA NA	\$283.52 921.65 NA 378.55 NA NA NA	50.50 % 49.50 NA 51.00 NA NA NA	\$965.00 2,550.00 NA 965.00 NA NA NA	\$487.33 1,262.25 NA 492.15 NA NA NA	11.44 % 6.49 NA 5.39 NA NA NA	1.05 % 1.03 NA 1.03 NA NA NA NA	9.00 % 11.50 NA 10.00 NA NA NA	9.45 % 11.65 NA 10.30 NA NA NA	\$2.05 1.05 NA 2.15 NA NA NA	\$1.05 0.70 NA 1.20 NA NA NA	48.3 % 33.3 NA 44.2 NA NA NA	45 % 39 NA 45 NA NA NA NA
Proxy Group of Four Value Line (Standard Edition) Water Companies. Amencian States Water Co. Aqua America, Inc. Castomia Water Service Group Southwest Water Company Average	51.40 % 49.20 56.20 56.40	\$551.60 1,873.30 673.60 295.10	\$283.52 921.68 375.56 166,44	50.50 % 49.50 51.00 56.50	\$965.00 2,550.00 965.00 560.00	5487.33 1.262.25 492.15 316.40	11.44 % 5.49 5.39 13.71	1.05 % 1.03 1.03 1.06	9.00 % 11.50 10.00 7.00	9.45 % 11.85 10.30 7.42	\$2.05 1.05 2.15 0.70	\$1.06 0.70 1.20 0.34	48.3 % 33.3 44.2 51.4	4.6 % 3.9 4.6 3.6 4.2 %

NA = Not Available

Notes: (1) From pages 8 through 15 of this Schedule.

[2) Column 1 * column 2.

[3) Column 4 * column 5.

[4) Prive year compound growth rate in comman equity from 2008 to 2010-2012 or ((((column 6 / column 3) ^ (1/5)) - 1)).

[5) 2 * ((1) * column 7 / (2 * column 7)).

[6) Column 8 * column 9.

[7) 1 - (column 12 * column 11).

[8] Column 10 * column 13.

Source of Information: Value Line Investment Survey, April 27, 2007

MER. STATES			SE-AW	R PR	26.5	253	PÆ RATIO 26.4	29.0	29 0	26.8	34 f.	438	41.1	Т	EAGE	ALU INE Target	Price	Range
LINESS 5 Lowered 12/1/06	High: Low:	16.1 12.5	17 1 13.5	19.5 14.1	14.8	167	190	20 3	21 6	20.8	24.5	30.3	35.4	-		2010	2011	1
ETY 3 New 2/4/50 HNICAL 3 Lowesed 4/27/07	LEGEN	DS 5 x Divident ded by Intel letive Price	is p sh rest Rate				- 10											1 80 60
HNICAL 3 Lowered 4/27/07 .80 (1.00 = Markel)	1 3-for-2 5D	al bauz	Swength															50 40
2010-12 PROJECTIONS Ann'l To	Options: N	io area Indicali	es recessio	<u>~</u>]			164.	3-lor-2			լկհիս	ithiriti	1.					30
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91 1992 1993 19	44	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 15.55	2008 15.80		UE LINE I es per si	PUB., INC	10-1
115 10 10 9 27 10	43 11.03	11.37	11 44	11.02	12.91 2.26	12.17	13.06 2.53	13.78 2.54	13.98 2.08	1361	14 06	15.75 2.90	3.10	3.25	"Cash I	low" per	sh	3.5
1.78 1.81 1.67 1 1.19 1.15 1.11	68 1.75 95 1.03	1.75	1.85	2.04 1.08	1.19	1 28	1 35	1 34	.78	105	1.32	1 33	1.55 .94	1.65 .97		is per sh ecl'd per		1.0
.73 .77 .79	.80 .81	.82 2.40	.83 2.58	.84 3.11	.85 4.30	3.03	318	.87 2 68	3.76	.89 5 03	4 24	3.91	3.95	3.95	Cap'l S	pending	per sh	4.i 22.i
	2 19 0.07 10.29	1 1	11.24	11.48	11.82	12.74	13.22	14.05	13.97 15.21	15.01	15.72 16.80	16.64 17.05	17.80	19.20 19.00		alue per on Shs O		.22.
9.91 9.96 11.71 1	1.77 11.77 128 116	13.33 12.6	13.44 14.5	13.44 15.5	13.44	15.12 15.9	15.12	15.18 18.3	31.9	23.2	21.9	27.7	Bold fig			n'i P/E R e P/E Rai		21
8.8 10.6 13.4 .56 .64 .79	12.8 11.6 84 .78	79	.84	.81	.97	1 03	86 3.9%	1.00 3.6%	1.82 3.5%	1.23 3.6%	3.1%	1.47	estin	ates		n'i Div'd		2.5
1.0% 6,3% 5.3% 6	.6% 6.7%	5.8%	5.5%	5.0%	173 4	4.2% 184 0	+	209.2	212 7	228 0	236.2	268.6	280	300		es (\$mil		3
APITAL STRUCTURE as of tal Debt \$300.4 mill Due	n 5 Yrs \$3 3	mill	153 8 14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5 47.0%	23.1	28.0 41.0%	32.0		fit (Smill) Tax Rat		42.0
Debt \$267.8 mill. LT in I interest earned: 3.1x: tota	terest \$24.0	mill.	41.1%	40 9%	46 0%	45.7%	43 0%	38.9%	43.5%	37.4%	41.07		Nil	Nii	AFUDO	% to Ne	t Profit	1.
verage: 2.9x)	(49%	of Cap'l)	43 0%	43.6%				52 0%	52.0%	47.7% 52.3%	50.4% 49.6%		49.5% 50.5%	49.0% 51.0%		enn Deb on Equity		49.5 50.5
ases, Uncapitalized: Noni ension Assets-12/06 \$64 3	e mill		56.3% 268 4	55.7%				48.0%	48.0%	480 4	532 5	551.6	635	720	Total (apital (\$ ant (\$mill	mill)	9
blig. \$86.1 mill.	Div'd None		383.6	414.8	449.6	509.1		563.3						835	Return	on Total	Cap'l	6.
			6.9% 9.2%	7.0%			10 1%	9.5%	5.6%	6.6%	8.5%			9.0%		on Shr. on Com		9.0
ommon Stock 17,049,137 IARKET CAP: \$625 million	(Small Cap)	9.2%	9.4%				9.5%						3.5%	Retain	ed to Co	m Eq	4.
URRENT POSITION 201 (\$MILL.)		12/31/06	B0%	78%	729	687	65%	65%	1			the city		58%		ds to Ne		5 Bernard
eceivables 14	3 13.0 3 13.3 5 1.4	14 B 1.6		TL.	h He	nnincins	Water Co al subsidi	arv. Ladi	den Slai	e marei	Count	L. A.m.i.	ad Chan	arrai (id	v water	ns Autz	Dna Hu	7001. 1
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VALUE LINE PUBLISHING, IN		1999	2000	2001	2002	21,03	2004	2005	2006	2007/2008
ALES PER SH	5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	
CASH FLOW" PER SH	1.59	1.65	1.73	1.78	1.78	1.89	1.91 1.16	1.62 .88	1.52 .81	1.05 ^{A,B} /1.15 ^C
ARNINGS PER SH	1.02	1.03	1.09	1.13 .80	1.12 .81	1.15 .83	.84	.85	.86	77.10
IV'DS DECL'D PER SH	1,12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	
AP'L SPENDING PER SH BOOK VALUE PER SH	8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60 8.27	
COMMON SHS OUTST'G (MILL)	6.80	7.26	7.28	7.65 21.5	7.94 24.3	7.97	8.04 22.9	8.17 28.6	29 1	23.1/21.1
VG ANN'L PIE RATIO	15.5 .81	18.2	18.2	21.5 1.10	1.33	1.34	1.21	1.51	1.57	
RELATIVE PIE RATIO NVG ANN'L DIV'D YIELD	4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6% 46.9	Dale farmer
SALES (\$MILL)	37.9	42.6	41.5	45.4	45.8	47.1 52.1%	48.5 51.0%	47.5 48.3%	46.9	Bold figures are consensus
PERATING MARGIN	46.2%	48.7%	48.8%	56.1% 5.0	57.7%	52.176	6.0	6.1	5.9	earnings
DEPRECIATION (\$MILL) NET PROFIT (\$MILL)	3.9 7.0	7.5	8.0	8.7	8.8	9.2	9.4	7.2	6.7	estimates
NCOME TAX RATE	34.3%	40 1%	35.7%	36.1%	33.8 %	17.9%	22.9%	15.1%	23.5% 14.3%	and, using the recent prices,
NET PROFIT MARGIN	18.4%	17.6%	19.2%	19.1% d3.3	19.5:% d5.1	19.5% d3.9	19.4% d.7	13.0	1.2	P/E ratios.
WORKING CAP'L (\$MILL)	d3.7 62.5	d3.8 65.4	64.7	64.0	64 8	64.8	66.4	77.4	77.3	
LONG-TERM DEBT (\$MILL) SHR. EQUITY (\$MILL)	58.7	63.3	65.7	71.6	80.7	84.2	88.7	94.9	96.7	{
RETURN ON TOTAL CAP'L	7.3%	7.4%	7.6%	7.9% 12.1%	7 4% 10.9%	7.5% 10.9%	7.0% 10.6%	5.0% 7.5%	6.9%	
RETURN ON SHR. EQUITY	11.9%	11.8% 3.1%	12.1%	3.6%	3.1%	3.2%	3.1%	.3%	NMF	1
RETAINED TO COM EQ ALL DIV'DS TO NET PROF	7001	7.497	7.40%	71%	72%	71%	71%	95%	105%	<u> </u>
ALL DIV'DS TO NET PROF ANo. of analysis changing eam. est	in last 14 days: t	up, 0 down, cor	sensus 5-year ea	mings growth 1	0.6% per year. ^E	Based upon one	analyst's estima	ate Based upo	n one analysi's e	simale
ANNUAL RATE		ASSETS (\$		004 2005	12/31/06		IND	JSTRY: Wa	ater Utility	
of change (per share) 5 Y		Cash Assel	5	.7 4.4	1.4 9.5	DISTNES	S. Conne	ctiont Wat	er Services	Inc. primarily
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Earnings -2	5.0%	Other		3.9 14.9	2.4	operates t	brough thr	ee segmen	ts: Water	Activities, Rea
)% 1.0%)% 0.5%		sels	15.3 26.1	14.2	Estate Tra	nsactions,	and Servic	es and Ren	tals. The Wate
T SHAPTEDING SALE	S (\$mill.) Fu	Property, P	bot			Activities	segment s	upplies pu	blic drinkii	ng water to it
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RELATIVE PIE RAT AVG ANN'L DIV'D '		1	.79 5.49		4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5% 74.6	3.7% 81.1	Bold figures
SALES (\$MILL)	HELD		43.1	+	53.5	54.5	59.6	61.9	64.1 44.0%	71.0 44.4%	44.4%	47.4%	are consensus
OPERATING MARC			37.0%	6	33.9% 4.3	32.2% 4.9	47.2% 5.3	47.1%	5.6	6.4	7.2	7.8	earnings
DEPRECIATION (\$ NET PROFIT (\$MIL		1	3.8 6.5	-	7.9	5.3	7.0	7.8	6.6	8.4	8.5 27.6%	33.4%	estimates and, using the
INCOME TAX RAT			31.59	6	28.8%	33.1%	34.8%		32.8% 10.3%	L	11.4%	.12.4%	recent prices,
NET PROFIT MAR	GIN		15.19	<u>~</u>	14.7%	9.7% d2.7	11.7% d.9	d9.3	d13.3	d11.8	d4.5	2.8	P/E ratios.
WORKING CAP'L LONG-TERM DEB			14.6 78.0	ļ	82.3	81.1	88.1	87.5	97.4	115.3	128.2	130.7 133.3	
SHR. EQUITY (\$M)			71.7		74.6	74.7	76.4	80.6	83.7 5.0%	99.2	103.6		
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ALL DIVIDS TO N	ET PROF	l			78%	121%	94%	87%	106%	90%	94%		timale
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	TERLY S.	ALES (\$	mill.)	Full	Property, P	ant at cort	314.9 343	0 376.8	through	ite nontem	lated subsi	diary, Utilit	ly Service Allili
Fiscal QUAR Year 1Q	2Q	3Q		Year	& Equip, Accum Dep	reciation	52.0 55	0 59.7	ates Inc	The comp	anv's water	r utility syst	em treats, stores
12/31/04 15 9	17.8	19.8		71.0	Nel Properl Other		262.9 288 26.7 19		and distr	ibutes wate	r for reside	ntial, comm	iercial, industrial
12/31/05 16 7	18.4 21.0	20.8 22.6		74 6 81.1	Total Asset	5	305.6 324		and fire	prevention	purposes.	and numer	pecial contract, in g services to the
12/31/06 18 2 12/31/07	۷۱.0				ļ				Townshi	n of East B	nnswick. N	viiddlesex V	Vater's other Nev
	RNINGS P	ER SHA		Full	LIABILITIE Accts Paya			5.0 5.5	Inverse c	pheidiaries	offer water	r and waste	water services to
Year 10	2Q	3Q	4Q	Year	Debt Due			5 9 2 5 9.6 10.1	recident	in Southar	moton Tow	nship. The	company's Dela
12/31/03 11	17	.22	11	.61 .73	Other Current Lia	b		15 18.1	ware sul	sidiaries. T	idewater U	tilities, Inc.	; Southern Shore
12/31/04 .09 12/31/05 .12	16 16	.29 .26	.19 .17	.71					Water C	ompany, L	LU; and Ti	roewater En	vironmental Ser customers in Nev
12/31/06 .15	25	28	.14	82	LONG TE	RM DEBT AN	D EQUITY		Cartle	Vent and	Sussex co	unties. Has	243 employees
12/31/07 .14	.24	.30		<u> </u>	LONG-TEI as of 1				Chairm	n. I Richs	ard Tompk	ins. Inc.: N	J. Address: 100
	TERLY DI 2Q	VIDEND: 3Q	S PAID 4Q	Full Year	Total Debi	\$133.2 mill.	Due in 5	Yrs. \$13.5 mH.	Ronson	Road, P.O.	Box 1500,	Iselin, NJ (08830, Tel.: (732
endar 1Q	.155	165	.168	.66	LT Debt \$	130.7 mill.			634-150	0. Internet:	http://www	w.middlesex	water.com.
2004 .165 2005 .168	168	168	17	.67	1	Cap. Leases		(50% of Cap'i)					
2006 .17	17	.17	.173	.68	•	ncapitalized					April 27	7, 2007	
2007 173				L	Pension I	lability \$16.4	mill. In 106 vs. :	\$6.7 miH. in '105	TOTAL	SHAREHO	I DER DET	URN	· -
INSTI	TUTIONAL				Pfd Slock			v'd Pald \$ 2 mill.	IOIAL	SHAKENO	Divi	dends plus eppi	eciation as of 3/31/20
1 """		30'0	5 40	Q'06	LIN SINCK	4-1 C 21M	51	(1% of Cap1)	1				
	2Q'06			21	1			(1 % or out 1)	3 Mar	6 Mos	. 11	/r. 3	Yrs. 5 Yrs
to Buy	2Q'06 15 20	17 22		21 14	Fammar	Stock 13,168,0	81 shares	(i is as out i)	3 Mos.	6 Mos			Yrs. 5 Yrs

SJW CORF	, NYS	EsJ	w			REG PRI	CENT 39	,26 TRAILING PIE RATIO	33.0 REI	ATIVE 1.61		5%	VE.
RANKS		Ť	11.9)2)8	20.17 9.54	20.33 15.83	17.83 11.58	15.07 12.67	14.95 12.57	19.64 14.60	27.80 16.07	45.33 21.16	43.00 High 33.55 Low
ERFORMANCE	3 Averag	e [EGEN	DS Mov Avg		14/44	1					11 • 45
echnical	3 Averag	.	Re	l Price	Strength [, 	- 3.4					, <u>, , , , , , , , , , , , , , , , , , </u>	30
		11	3-for-1 s 2-for-1 s	Dlit 3/()6 H-							12411	22.5
SAFETY	3 Averag	* L	Shaded are	a indica	les ecession	''''''''''''''''''''''''''''''''''''''	\sim			السيااال	, min		13
BETA 70 (1.	00 = Mark	et)		-	-11/4		11000	The street					
			1111	r:4:	1111		2.00 (i.e.)	·	• • • • • • • • • • • • • • • • • • • •				9
l-1 C4	B+	. [•	· •	•		Aller						6
inancial Strength		1					12.0 12.0 200 11.0 200 11.0 20	t l					4
rice Stability	7	5					354						1 3
Price Growth Persis	tence 8	10		_			AD5	16 66 66					60
		0					FICE 13 27				 	!-1:111111	voi
arnings Predictabil	ity /	F			الليبييا	للسلليست	بنيتينا	111111111111		لستاليان	<u>' IIIIII III</u>		(thou
VALUE LINE PUB	LICHTNC	INC	1998	باديد	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
	Listing,				6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	
SALES PER SH	eu		5.5 1.2		1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	
'CASH FLOW" PER EARNINGS PER SH	5.1	1	.7		.87	.58	.77	.78	.91	8 /	1.12	1.19	1.41 A.B/1.49 C
DIV'DS DECL'D PER	t SH		.3	9	.40	.41	.43	.46	3.41	7 31	.53 2.83	.57 3 87	
CAP'L SPENDING P	ER SH		1.8		1.77	1.89	2.63 8.17	2.06 8.40	9.11	12,11	10.72	12.48	
BOOK VALUE PER			7.5		7.88 18.27	7.90 18.27	18.27	18.27	18.27	8.27	18.27	18.28	
COMMON SHS OUT		.L)	19.0 13.1		15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	27.8/26.3
AVG ANN'L P <i>i</i> e rat Relative p <i>i</i> e rati		- 1	.6		.88	2.15	.95		.88	1.04	1.04	1.27	İ
AVG ANN'L DIV'D Y		1	3.9		3.0%	2.1%	3.0%		3.5%	3.0%	2.4% 180.1	2.0% 189.2	Bold figures
SALES (SMILL)			106 0		117.D	123.2	136.1	145.7	149.7 56.0%	166.9 56.4%	55.9%	57.0%	are consensus
OPERATING MARG			36.0		33.2%	30.2% 11.9	64.4% 13.2	63.7%	15.2	18.5	19.7	21.3	earnings
DEPRECIATION (\$N		- 1	9.6 14.4		10.2 15.9	10.7	14.0	14.2	16.	16.0	20.7	22.2	estimates
NET PROFIT (\$MILL			40.2		35.9%	41.0%	34.5%	40.4%	36 2%	42.1%	41.6%	40.8%	and, using the
INCOME TAX RATE NET PROFIT MARG		- 1	13.6	1	13.6%	8.7%	10.3%		1′.2%	9.6%	11.5%	11.7%	recent prices,
WORKING CAP'L (9.4		d3.0	d11.4	d3.8	d4.9	12.0	13.0	10.8	22.2 163.6	P/E ratios.
LONG-TERM DEBT		- 1	90.0)	90.0	90.0	110.0	110.0 153.5	1 19.6	143.6 184.7	145.3 195.9	228.2	
SHR. EQUITY (\$MIL			143.2		143.9	144.3 5.9%	149.4		6.9%	6.5%	7.6%	7.0%	
RETURN ON TOTAL		-	7.4 10.1		8.2% 11.0%	7.4%	9.49	· 1	10.0%	8.7%	10.6%	9.7%	}
RETURN ON SHR.				1%	5.9%	2.2%	4.19		4.7%	3.6%	5.6%	5.2%	
ALL DRADS TO NE	T PROF		52%	ļ	46%	70%	56%	59%	53%	58%	47%	46%	<u> </u>
ANo. of enelysis chan	ging earn	est in t	ast 14 day	/s: 0 bi	o, C down, cons	ensus 5-year e	arnings growt	h 10.0% per year.	Jased upon on			n one analysi's e	slimate.
	NUAL RAT						2004 200			IND	USTRY: W	ater Utility	
of change (per sha		5 Yrs.	1	Yr.	ASSETS (\$r Cash Assets			4 3.8					1.1"
Sales	,	7.5%		0%	Receivables		14.6 18		BUSINE	SS: SJW (Corp. opera	tes as the ho	olding company
"Cash Flow" Earnings		9.5% 7.5%		5% 0%	Inventory Other			د. 6 2 <u>339</u>	for San Jo	ose Water C	ompany (S)	C and CIV	Land Company VTX Water, Inc
Dividends		5.5%	6	5%	Current Ass	els ~	28.4 31		CINC	Moice maici	chaces star	es purifies	distributes, and
Book Value		7.0%	16	.5%	Current				SIWC pro	er It nrov	rides water	service to	customers in
Fiscal QUART	ERLY SAI	LES (\$	mill.)	Full	Property, Pl	ant atrost f	646.9 695	0 778.2	Cupertino	. San Jose.	Campbell, I	Monte Serer	o, Saratoga, th
Year 1Q		3Q	4Q	Year	& Equip, Accum Depi	eciation	190.1 210	234.5	Town of	Los Gatos	s, and in the	he county	of Santa Clara
12/31/04 31.1		52.3	37.9	166.9	Net Property		56.8 484 67.0 71	1.8 541.7 1.2 104.7	California	a. SJWC als	so provides	nonregulate	ed water-relate
12/31/05 33.3		58.5	43.5	180.1 189.2	Other Total Assets		552.2 587		services.	including v	water system	m operation	is, billings, an
12/31/06 33.7 12/31/07	4/9	63.1	44.5	,00.2					cash rem	ittance ser	vices. SJW	Land own	s and operate
	NINGS PE	R SHA	RF	Full	LIABILITIES		9 !	5.1 7.3	parking f	acilities in	San Jose,	California, a	as well as own
Fiscal EARI Year 1Q		3Q	4Q	Year	Accts Payal Debt Due	ж	.3	3 16.0	commerc	ial building	s and other	undevelope	d land primaril
	24	33	16	.91	Other		14.2	5.5 13.9	in the Sa	n Jose Mei	ropoinan a	rca, some p	properties in the
12/31/03 .18 12/31/04 .09	27	.30	.21	87	Current Lial)	15.4 20	0.9 37.2	states of	rionia, lex	in 444 W	et Santa C	lara Street, L.I
12/31/05 .15	.31	53	.13	1.12					parmersh	choice con	le and ran	te water co	onditioning an
12/31/06 .14	.35	.4B	.22	1.19	LONGITED	M DEBT AND	EQUITY		Durificati	on equinm	ent Has	157 employ	ees. Chairman
12/31/07 -20	.37			<u> </u>	as of 12				Drew Gi	hson. Inc.:	CA. Addr	ess: 374 W	est Santa Clai
	ERLY DIVI			Full Year	1		Dun In F	Yrs. \$21.7 mill.	Street S	an Jose, CA	95113. Tel	l.: (408) 279	7800. Interne
	2Q	3Q	4Q		Total Debt		Dag III 3	FISH VET I THE		w.sjwater.c		,	
endar 1Q	128	128	.128	.51		ap. Leases I	Vone	140W N. P					A.2
2004 .128	134	134	.134 .141	56	1 00000 11-	capitalized A	onual rentals	(42% of Capil) None			Amest 27	2007	
2004 .128 2005 134		.171			i						April 27,	2007	
2004 .128 2005 134 2006 141	.141				1 Pension L	ability \$26 3 r	nill in 106 vs	\$13 2 milli in '95	TOTAL C	HADEHOL	DER RETU	IDN	
2004 .128 2005 134 2006 141 2007 .151			2000		7 01101011 -	outily troop							
2004 .128 2005 134 2006 .141 2007 .151	JTIONAL I			over.				Div'd Pald None	TOTALS	MARLINOL	Divlde	nds plus apprec	iation as of 3/31/200
2004 .128 2005 .134 2006 .141 2007 .151 INSTITU	JTIONAL I	3Q'0	6 4	Q'06 33	Pfd Stock A	lone	Pfd	Div'd Pald None			Divlde	nds plus apprec	fiation as of 3/31/200 5. 5 Yrs.
2004 .128 2005 134 2006 .141 2007 .151	JTIONAL I		6 4	Q'06 33 22	Pfd Stock A		Pfd	Div'd Pald None (58% of Cap'l)	3 Mos.	6 Mos.	Divide 1 Yr. 53.69%	nds plus apprec	s. 5 Yrs.

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TO SUBSCRIBE CALL

TO SUBS

ORK WATER CO) NDOY	ORW		PRI	ENT 17	.82 TRAILING	30.1	P/E R	ATIO 1.JU		6%	18.15 High
RANKS	1,54.				10.22 5.67	13.45 8.20	13. 9.	49 33	14.03 11.00	17.87 11.67	20.99 15.33	18.15 High 16.12 Low
REFORMANCE 3 Average		ENDS	Ave			· .					111111111111111111111111111111111111111	18
echnical 3 Average	Rel F	los Mov / Price Stre 1 5/02	ngth		Series		,,111,		11.	نالنانالي		13
AFETY 3 Average	3-for-2 spli Shaded area	1 9/00	cession		1 4 1	1111	117+114				· · · · · · · · · · · · · · · · · · ·	8
ETA 55 (1.00 = Market)								ſ	· · · · · ·			5
	ļ							-				4
nancial Strength B+							+	-				2
ice Stability 60							1			ı		
rice Growth Persistence 50					ilitrates -		1		- 1.1.l	h.l. 1.	 	200
arnings Predictability 85						45	111111		10.11111			VOL. (thous
The same service by	1998		999	2000	2001	2002	200		2004	2005	2006	2007/2008
VALUE LINE PUBLISHING, IN EVENUES PER SH				_	2.05		2.		· 2.18	2.58 .79	2.56	
CASH FLOW" PER SH	-	1	_	-	.59		1 4	65 ¹ 47	.49	.56	.58	.63 A.B/.69 C
ARNINGS PER SH IV'D DECL'D PER SH					.34		1.	37 07	.39 2.50	1.69	.45 1.85	
AP'L SPENDING PER SH			-	-	3.79	3.90	4.	۲ż	4.65	4.85	5.84 11.20	
DOOK VALUE PER SH COMMON SHS OUTST'G (MILL)	<u> </u>		=		9.46 17.9	9.55 26.9	9.	' <u>:3</u> 5	10.33 25.7	10.40	31.2	28,3/25.8
IVG ANN'L PIE RATIO RELATIVE PIE RATIO	_		-		.92	1.47	.	40	1.36 3.1%	1.39 2.9%	1.6B 2.5%	
AVG ANN'L DIV'D YIELD				18.5	19.4	% 3.3% 19.6	20	.9	22.5	26.8	28.7	Bold figures
REVENUES (\$MILL) NET PROFIT (\$MILL)	_		-	3.8	4.0	3.8		.8%	4.8 36.7%	5.8 36.7%	6.1	are consensus earnings
NCOME TAX RATE	-			35.7%	35.8° 2.2°		•	.076			7.2%	estimates
AFUDC % TO NET PROFIT LONG-TERM DEBT RATIO	+		-5-	50.2%	47.7			.4% .6%	42.5% 57.5%	44.1% 55.9%	48.3% 51.7%	and, using the recent prices,
COMMON EQUITY RATIO	-		- .	49.8% 65.2	52.3 68.6		69	1.0	83.6	90.3	126.5	P/E ratios.
TOTAL CAPITAL (\$MILL) NET PLANT (\$MILL)				97.0 7.9%	102.3		116	3.5%	7.6%	155.3 8.4%	174.4 6.2%	-
RETURN ON TOTAL CAP'L RETURN ON SHR. EQUITY				11.6%	11.2	% 10.25	11	.4%	10.0%	11.6% 11.6%	1 .	
RETURN ON COM EQUITY				11.6% 2.5%	11.2			2.6%	10.0%	3.0%	2.2%	1
RETAINED TO COM EQ	_				700/	000/	77%		79%	74%	77%	neles
ALL DIV'DS TO NET PROF ANo. of enelysis changing earn, est	in lest 14 days	: 0 up. 0	down, cons	ensus 5-year	earnings grov		- Based up	U1 3 811	IND	USTRY: V	Vater Utility	
ANNUAL RATE			SSETS (\$1) ash Assets	,	2004 2	005 12/31/36 0 .0						
Revenues 3	5% · 0.5	5% R	eceivables eventory (A		37	3.8 4.8 8 .8	2000	dina	nurification	on and di	istribution of	ages in the im- of water in York
Famings 4	5% 3 5	5% Ö	ther	-			Conv	17/ 27	d Adams (County. Pe	nnsvivania.	it supplies water
	0% 7.1 0% 20.1		urrent Ass	ets	5.0	5.1 6.7	for r	eside	ntial, comm	nercial, inc	lustrial, and irs. Lake W	other customers
Fiscal QUARTERLY SALE		run	roperty, Pl	ant at cost		82.4 202.7	l nada	~~~	which too	ether holi	d approxim	ately 2.2 billion
Year 1Q 2Q 30			ccum Dep let Propert	reciation	140.0 1	27.1 28.3 55.3 174.4	0		mma Diver	to Iake Re	dman that E	pipeline from the provides access to
12/31/04 5.3 5.5 5. 12/31/05 6.2 6.7 7	2 6.7	26.8 C	Other		11.1	11.9 15.0 72.3 196		dditi	onal sunni	iv of wate	er. The con	npany serves 3
12/31/06 6.6 7.0 7.	7 7.4		olał Asset		,50.4			inina	lities in Vi	ork Count	v and four	municipalities i
12/31/07			JABILITIE Accis Paya		1.8	2.6 1.) Teff	-p-1 C	Ocman	Inc.: PA.	Address:	130 East Marke
12/31/07 EARNINGS PER	SHARE	Full /			16.3 3.1	19.3 1. 2.8 3.	Stre	et, Y	ork, PA 1	7401. Tel	.: (717) 84	5-3601. Interne
Fiscal EARNINGS PER Year 1Q 2Q 3	Q 4Q	Year	Debt Due Other					. / frame		er com.		
Fiscal EARNINGS PER 1Q 2Q 3 12/31/03 .08 .11 12/31/04 .12 .11	Q 4Q 6 12 2 14	Year (b	21.2	24.7 5.	ntip:	.// W W	w.yorkwat			
Fiscal Year 1Q 2Q 3 12/31/03 08 11 12/31/04 .12 11 12/31/05 .12 14	G 4Q	.47 (.49 (.56 (Other Current Lla		21.2	24.7 5.	http:	.11 W W	w.yorkwar			
Fiscal Year 1Q 2Q 3 12/31/03 0.8 11 12/31/04 12 11 12/31/05 12 14 12/31/05 12 14 12/31/07 .13 .17	Q 4Q 6 12 12 14 17 13 17 15	.47 (.49 (.56 (Other Current Lla	RM DEBT AN	21.2	24.7 5.	e intro	,11 W W	w.yorkwai			
Fiscal Year 1Q 2Q 3 12/31/03 08 11 12/31/04 12 11 12/31/05 12 14 12/31/07 .13 .17 Cal- QUARTERLY DIVID	Q 4Q 6 12 12 14 17 13 17 15 20 ENDS PAID	Year 1 47 49 56 58 Full	Other Current Lla LONG-TER as of 17	RM DEBT AN 2/31/06	21.2 D EQUITY	24.7 5.		.11 W W	W.YOLKWAI			
Fiscal Year 1Q 2Q 3 12/31/03 08 11 12/31/04 12 11 12/31/05 12 14 12/31/07 .13 .17 Calendar 1Q 2Q :	Q 4Q 6 12 2 14 17 13 17 15 20 ENDS PAID	Year 1 47 49 56 58 Full Year	Other Current Lla LONG-TEF as of 17 Total Debt \$1	RM DEBT AN 2/31/06 : \$62.3 mill. 51.1 mill.	21.2 ID EQUITY Due in	5 Yrs. \$18 0 ml		.77 ••• ••	W.YOLKWAI			A.
FISCAI Year 1Q 2Q 3 12/31/03 .08 .11 12/31/04 .12 .11 12/31/05 .12 .14 12/31/05 .12 .14 12/31/07 .13 .17 Cal QUARTERLY DIVID endar 1Q 2Q 2004 .097 .097 .097 2005 .104 .104	Q 4Q 16 12 12 14 17 13 17 15 20 ENDS PAID 10 4Q 104 104	Year 1 47 49 56 .58 Full Year .39 42	Other Current Lla LONG-TEF as of 17 Total Debt LT Debt \$ Including	RM DEBT AN 2/31/06 : \$62.3 mill. 51.1 mill. Cap. Leases	21.2 D EQUITY Due in	5 Yrs. \$18 0 ml			w.yorkwar		7. 2007	A.
FISCAI Year 1Q 2Q 3 12/31/03 .08 .11 12/31/04 .12 .11 12/31/05 .12 .14 12/31/07 .13 .17 Cal- QUARTERLY DIVID endar 1Q 2Q 2004 .097 .097 .097 2005 .104 .104	Q 4Q 6 12 12 14 17 13 17 15 20 ENDS PAID 197 .097	Year 1 1 1 1 1 1 1 1 1	Other Current Lla LONG-TEF as of 17 Total Debt LT Debt \$1 Including Leases, th	RM DEBT AN 2/31/06 \$62.3 mill. 61.1 mill. Cap. Leases ncapitalized	21.2 De EQUITY Due in \$17.5 mill. Annual reni	. 5 Yrs. \$18 9 ml (48% of Cap tals None	1)			April 2		A.
Fiscal Year EARNINGS PER 1Q 2Q 3 3 12/31/03 .08 .11 .12/31/05 .12 .14 .12/31/05 .12 .14 .12/31/07 .13 .17	Q 4Q 16 12 12 14 17 13 17 15 20 ENDS PAID Q 4Q 197 097 104 104 112 112	Year	Other Current Lia LONG-TEF as of 1: Total Debit LT Debit \$\frac{1}{2}\text{Including} Leases, U Pension L	RM DEBT AN 2731/06 \$52.3 mil. 51.1 mil. Cap. Leases ncapitalized	21.2 DEQUITY Due in \$17.5 mill Annual rent mill in '06 vs	5 Yrs. \$18 0 ml	1) TO		SHAREHO	April 2	IIRN	
Fiscal Year	Q 4Q 16 12 12 14 17 13 17 15 20 ENDS PAID Q 4Q 197 097 104 104 112 112 ECISIONS	Year 147 49 56 58 Full Year 42 45 Q*06	Other Current Lia LONG-TEF as of 17 Total Debt \$1 Including Leases, U Pension L	RM DEBT AN 2731/06 \$52.3 mil. 51.1 mil. Cap. Leases ncapitalized	21.2 DEQUITY Due in \$17.5 mill. Annual rent mill in '06 vs	. 5 Yrs. \$18 0 ml (48% of Cap tals None . \$3 9 mill in '05	TO			April 2 LDER RET	TURN Idends plus app	A recialion as of 3/31/20 Yrs. 5 Yrs

OUTHWEST W	ATE	RNDC)-swwc	RE PR	CENT	14.2	4 PAE RATIO	29.7	Trallin Media	ig: 35.6) in: 19.0)	RELATIVE PIE RATIO	1.5		1.7	% X	NE:		
IELINESS 3 Raised 3/30/07	High: Low:	3.7 2.0	5.0 2.6	5.6 3.5	9.2 3.6	8 3 5 1	10.2 6 9	12.4 7.6	11.2 8 1	14.3 10.3	15.2 9.0	19.1 16.8	15 3 12 1					Range 2012
FETY 3 New 10/78/05	LEGEN	NDS		7	1		1162											140
CHNICAL 3 Lowered 2/16/07	div Re	50 x Divide vided by intellective Price	lerest Rate Strength				2477											32
7A 90 (1:00 = Market) 2010-12 PROJECTIONS	6-for-5 sp 5-for-4 sp	M 12/96 M 10/98					100			-for-3								24
Ann'i Tota	3-lor-2-sp 5-lor-4-sp 4-lor-3-sp	ift 1/D1					322			<u></u>		H	1.0					16
Price Gain Return h 18 (+25%) 8%	Options: I	No area indica	ates recess	ion -	3-10	r-2 -	lor-4	.[11].			100 mg	Ť	11		<u> </u>			12
12 (-15%) -1% sider Decisions	State						ior-4 In Piple		inthibet.				ļ					8
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			8.0%	9.5% 9.6%	10.4%	11.1%	11.4%	97%	9.1%	3.6%	5.0% 5.0%	5.6% 5.6%	6.0%	6.0%	Return on			7.07
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Utilities Services of South Carolina, Inc.
Indicated Common Equity Cost Rate
Through Use of a Risk Premium Model
Using an Adjusted Total Market Approach

Line <u>No</u>		Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1	Prospective Yield on Aaa Rated Corporate Bonds (1)	6.1 %	6.1 %
2	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public		
	Utility Bonds	0.5 (2)	0.5 (2)
3	Adjusted Prospective Yield on A Rated Public Utility Bonds	6.6 %	66%
4	Adjustment to Reflect Bond Rating Difference of Proxy Group	0.0 (3)	0.0 (3)
5	Adjusted Prospective Bond Yield	6.6	6.6
6	Equity Risk Premium (4)	4.2	4.4
7	Risk Premium Derived Common Equity Cost Rate	10.8 %	11.0 %

Notes:

- (1) Derived in Note (3) on page 6 of this Schedule.
- (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0 53%, rounded to 0.5% from page 4 of this Schedule.
- (3) No adjustment necessary as the average Moody's bond rating of the proxy group is A2.
- (4) From page 5 of this Schedule.

Utilities Services of South Carolina, Inc.

Comparison of Bond Ratings and Business Profile for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

		June 2007 Moody's ond Rating		Standard	2007 & Poor's Rating		Standard & Poor's Business Position / Profile (2)
	Bond Rating	Numerical Weighting (1)	Bond Rating	Numerical Weighting (1)	Credit Rating	Numerical Weighting (1)	
Proxy Group of Eight AUS Utility Reports Water Companies							
American States Water Co. (3)	A2	6	A-	7	A-	7	3.0
Agua America, Inc. (4)	NR		AA-	4	A+	5	2.0
Artesian Resources Corp. (5)	NR	••	NR		NR		• •
California Water Service Group (6)	A2	6	NR		A+	5	3.0
Connecticut Water Service Inc. (7)	NR		AAA	1	Ą	6	3.0
Middlesex Water Company	NR	• •	Α	6	A-	7	3.0
SJW Corp. (8)	NR	• •	NR		NR		
York Water Company	NR		<u>A-</u>	7	NR	***	2.0
Average	A2	6.0	<u>A+</u>	5.0	A	6.0	2.7
Proxy Group of Four Value Line (Standard Edition) Water							
American States Water Co. (3)	A2	6	A-	7	A-	7	3.0
Aqua America, Inc. (4)	NR	••	AA-	4	A+	5	2.0
California Water Service Group (6)	A2	6	NR		A+	5	3.0
Southwest Water Company (9)	NR		NR		NR		* *
Average	A2	6.0	A+ / A	5,5	Α	5.7	2.7

Notes: (1) From page 3 of this Schedule.

- (2) From Standard & Poor's U.S. Issuer Ranking: U.S. Utility and Power Companies, Strongest to Weakest, June 22, 2007
- (3) Ratings and business profile are those of Golden State Water Company
- (4) Ratings and business profile are those of Aqua Pennsylvania. Inc.
- (5) Ratings and business are a composite of those of Artesian Water Company and Southwood Water Company.
- (6) Ratings and business profile are those of California Water Service Company.
 (7) Ratings and business position are those of The Connecticut Water Company
 (8) Ratings and business position are those of San Jose Water Company.

- (9) Ratings and business position are a composite of those of Hornsby Bend Utility Co., New Mexico Utilities, Inc., Suburban Water Systems, and Windermere Utility Co.

Source of Information:

Moody's Investors Service

Standard & Poor's Global Utilities Rating Service

Exhibit No. ____ Schedule PMA-10 Page 3 of 9

Utilities Services of South Carolina, Inc. Numerical Assignment for Moody's and Standard & Poor's Bond Ratings

Moody's Bond Rating	Numerical Bond Weighting	Standard & Poor's Bond Rating
Aaa	1	AAA
Aa1	2	AA+
Aa2	3	AA
Aa3	4	AA-
A1	5	A+
A2	6	A
A3	7	A-
Baa1	8	BBB+
Baa2	9	BBB
Baa3	10	BBB-
Ba1	11	BB+
Ba2	12	BB
Ba3	13	BB-

Moody's
Comparison of Interest Rate Trends
for the Three Months Ending May 2007. (1)

					Spread - Co	rporate v. Public U	Itility Bonds	Spread - Publi	c Utility Bonds
	Corporate Bonds		Public Utility Bond	s	Aa (Pub. Util.) over	A (Pub. Util.) over Aaa	Baa (Pub. Util.) over		
Years	Aaa Rated	Aa Rated	A Rated	Baa Rated	Aaa (Corp.)	(Corp.)	Aaa (Corp.)	A over Aa	Baa over A
March-07 April-07 May-07	5.30 % 5.47 5.47	5.66 % 5.83 5.86	5.85 % 5.97 5.99	6.10 % 6.24 6.23					
Average of Last 3 Months	5.41_%	5.78 %	5.94 %	6.19 %	0.37 %	0.53 %	0.78 %	0.16 %	0.25_%

Notes: (1) All yields are distributed yields.

Source of Information: Mergent Bond Record, June 2007, Vol. 74, No. 5

Exhibit No. Schedule PMA-10 Page 5 of 9

Utilities Services of South Carolina, Inc. Judgment of Equity Risk Premium for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line No.		Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1,	Calculated equity risk premium based on the total market using the beta approach (1)	4.0 %	4.4 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	4.4	4.4
3.	Average equity risk premium	4.2 %	4.4 %

- Notes: (1) From page 6 of this Schedule. (2) From page 8 of this Schedule.

Utilities Services of South Carolina, Inc. Derivation of Equity Risk Premium Based on the Total Market Approach Using the Beta for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line No.			Proxy Group of Eight AUS Utility Reports Water	Proxy Group of Four Value Line (Standard Edition) Water Companies
1		Arithmetic mean total return rate on the Standard & Poor's 500 Composite Index - 1926-2006 (1)	12 3 %	12.3 %
2		Arithmetic mean yield on Aaa and Aa Corporate Bonds 1926-2006 (2)	(6.1)	(6.1)
3		Historical Equity Risk Premium	6.2 %	6.2 %
4		Forecasted 3-5 year Total Annual Market Return (3)	9.8 %	9.8 %
5		Prospective Yield an Aaa Rated Corporate Bonds (4)	(6.1)	(6.1)
6		Forecasted Equity Risk Premium	3.7 %	3.7 %
7		Average of Historical and Forecasted Equity Risk Premium (5)	50%	50%
8		Adjusted Value Line Beta (6)	0.80	0.88
9.		Beta Adjusted Equity Risk Premium	4.0 %	4.4 %
Notes:	(1)	From <u>Stocks Bonds Bills and Inflation - Market Results</u> Morningstar, Inc., 2007 Chicago, IL	for 1926-2006 - 2007 Yearbook \	/aluation Edition,
	(2)	From Moody's Industrial Manual and Mergent Bond Re	cord Monthly Update	
		From page 3 of Schedule PMA-11.		
	(4)	Average forecast based upon six quarterly estimates o nearly 50 economists reported in Blue Chip Financial F Schedule) The estimates are detailed below	f Aaa rated corporate bonds per ti forecasts dated July 1, 2007 (see	ne consensus of page 7 of this
		Third Quarter 2007	5.9 %	
		Fourth Quarter 2007	6.0	
		First Quarter 2008	6.1	
		Second Quarter 2008	6.1 6.1	
		Third Quarter 2008 Fourth Quarter 2008	6.2	
		Average	6.1 %	

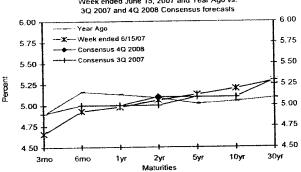
- (5) Average of the Historical Equity Risk Premium of 6.2% from Line No. 3 and the Forecasted Equity Risk Premium of 3.7% from Line No. 6 ((6.2% + 3.7%) / 2 = 4.95%, rounded to 5.0%.
- (5) From page 9 of this Schedule

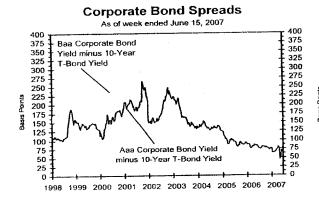
Consensus Forecasts Of U.S. Interest Rates And Key Assumptions¹

			Histor	ry			[Cons	ensus I	Forecas	ts-Qua	rterly	Avg.
Ave	erage For	Week En	ding	Aver	age For M	lonth	Latest Q	4Q	3Q	1Q	2Q	3Q	4Q
Jun 15	June 8	Jun 1	May 25	May	Apr.	Mar.		2007	<u> 2007</u>				2008
5.26	5.24	5.28	5.24	5.25	5.25	5.26	5.25	5.2					5.1
8.25	8.25	8.25	8.25	8.25	8.25	8.25	8. <i>25</i>			-			8.1
5.36	5.36	5.36	5.36	5.35	5.35	5.35							5.2
5.26	5.22	5.24	5.23	5.22	5.23	5.23							5.2
4.66	4.8	4.82	4.90	4.87	5.01								4.9
4.93	4.97	4.98	5.00	4.98				1					5.0
4.98	4.98	4.96	4.95	4.91									5.0
5.06	4.99	4.92	4.84	4.77				1					5.1
5.13	4.98	4.86	4.77	4.67								-	5.1
5.20	5.02	4.90	4.84	4.75	4.69								5.3
5.29	5.12	5.02	4.99	4.9	4.87	4.72							5.4
5.89	5.67	5.58	5.55	5.47	5.47	5.30	5.57						6.2
6.79	6.62	6.51	6.47	6.39	6.39	6.27	6.50						7.1
4.64	4.54	4.41	4.38	4.31	4.26	4.15	4.39	4.7					4.8
6.74	6.53	6.42	6.37	6.26	6.18	6.16	6.36	6.6	6.7	6.7	6.7	6.8	6.8
			Histor	γ				Cons	ensus	Foreca	sts-Qข	arterly	Avg.
30	40	10	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	4Q	3Q
-	2005	2006	2006	2006	2006	<u>2007</u>	2007*	2007	<u> 2007</u>				<u>2008</u>
84.7	85.8	84.9	82.2	81.7	81.6	81.9	79. 3	79.0	78.6				78.0
4.2	1.8	5.6	2.6	2.0	2.5	0.6	3.1	2.6	2.7	2.9	2.9		3.0
3.3	3.3	3.3	3.3	1.9	1.7	4.0	3.1	2.3	2.2	2.4	2.2		2.1
5.5	3.5	1,8	5.1	3.0	-2.0	3.8	<i>5.2</i>	2.6	2.1	2.5	2.5		2.2
	Jun 15 5.26 8.25 5.36 5.26 4.66 4.93 4.98 5.06 5.13 5.20 5.29 5.89 6.79 4.64 6.74 3Q 2005 84.7 4.2 3.3	Jun 15 June 8 5.26 5.24 8.25 8.25 5.36 5.36 5.26 5.22 4.66 4.8 4.93 4.97 4.98 5.06 5.02 5.02 5.20 5.02 5.29 5.12 5.89 5.67 6.79 6.62 4.64 4.54 6.74 6.53 3Q 4Q 2005 84.7 85.8 4.2 1.8 3.3 3.3 3.3	Jun 15 June 8 Jun 1 5.26 5.24 5.28 8.25 8.25 8.25 5.36 5.36 5.36 5.26 5.22 5.24 4.66 4.8 4.82 4.93 4.97 4.98 4.98 4.96 5.06 5.00 4.99 4.92 5.13 4.98 4.86 5.20 5.02 4.90 5.29 5.12 5.02 5.89 5.67 5.58 6.79 6.62 6.51 4.64 4.54 4.41 6.74 6.53 6.42 3Q 4Q 1Q 2005 2006 84.7 85.8 84.9 4.2 1.8 5.8 3.3 3.3 3.3 5.5 3.5 1.8	New New New New New New New New New New	New New New New New New New New New New	No. No.	Name	Jun 15 June 8 Jun 1 May 25 May Apr. Mar. 20 2007* 5.26 5.24 5.28 5.24 5.25 5.25 5.26 5 25 8.25 8.25 8.25 8.25 8.25 8.25 8.25 8.25 5.36 5.36 5.36 5.35 5.35 5.35 5.35 5.34 5.26 5.22 5.24 5.23 5.22 5.23 5	Name	Name	Name Name	Name State Name	

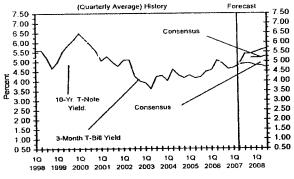
Individual panel members' forecasts are on pages 4 through 9 Historical data for interest rates except LIBOR is from Federal Reserve Release (F available from The Wall Street Journal. Definitions reported here are same as those in FRSR H 15 Treasury yields are reported on a constant maturity basis. Historical data for the U.S. Federal Reserve Board's Major Currency Index is from FRSR H 10 and G 5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA) Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS) *Interest rate data for 2Q 2007 based on historical data through the week ended June 15th. Data for 2Q 2007 Major Currency Index also is based on data through week ended June 15th. Figures for 2Q 2007 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panel members this month.

U.S. Treasury Yield Curve Week ended June 15, 2007 and Year Ago vs. 3Q 2007 and 4Q 2008 Consensus forecasts





U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



U.S. Treasury Yield Curve

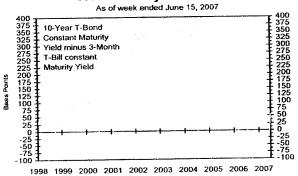


Exhibit No. ___ Schedule PMA-10 Page 8 of 9

Utilities Services of South Carolina, Inc. Derivation of Mean Equity Risk Premium Based on a Study Using Holding Period Returns of Public Utilities

			Over A Rated Public Utility Bonds
			AUS Consultants -
Line			Utility Services
No. Study <u>1</u>	Study (1)		
	-		<u>1</u>
Time Period			1928-2005
1,		Arithmetic Mean Holding Period	
,,			
		Standard & Poor's Public	
		Utility Index	11.0 %
2.		Arithmetic Mean Yield on:	
2.		A Rated Public Utility Bonds	(6.6)
3.		Equity Risk Premium	4.4 %
Notes:	(1)	S&P Public Utility Index and Moody's Public U Yields 1928-2005, (US Consultants - Utility So	Itility Bond Average Annual ervices, 2006).
	(2)	Holding period returns are calculated based u (dividends and interest) plus the relative chan security over a one-year holding period.	pon income received ge in the market value of a

Exhibit No. ____ Schedule PMA-10 Page 9 of 9

Utilities Services of South Carolina, Inc. Value Line Adjusted Betas for the Proxy Group of Eight AUS Utility Reports Water Companies, the Proxy Group of Four Value Line (Standard Edition) Water Companies

	Value Line Adjusted Beta
Proxy Group of Eight AUS Utility Reports Water	
American States Water Co.	0.80
Aqua America, Inc.	0.90
Artesian Resources Corp.	NA
California Water Service Group	0.90
Connecticut Water Service Inc.	0.90
Middlesex Water Company	0.85
SJW Corp.	0.70
York Water Co.	0.55
Average	0.80
Proxy Group of Four Value Line (Standard Edition) Water Companies	
American States Water Co.	0.80
Agua America, Inc.	0.90
California Water Service Group	0.90
Southwest Water Company	0.90
Average	0.88

NA = Not Available

Source of Information: Value Line Investment Survey, April 27, 2007
Standard Edition and Small and Mid-Cap Edition

Exhibit No. ____ Schedule PMA-11 Page 1 of 3

Utilities Services of South Carolina, Inc. of the Capital Asset Pricing Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies

Line <u>No.</u>		Proxy Group of Eight AUS Utility Reports Water Companies	Proxy Group of Four Value Line (Standard Edition) Water Companies
1	Traditional Capital Asset Pricing Model (1)	10.2 %	10.4 %
2.	Empirical Capital Asset Pricing Model (1)	10.2 %	<u>10.6</u> %
3.	Conclusion	10.2 %	10.5 %

Notes: (1) From page 2 of this Schedule.

Utilities Services of South Carolina, Inc. Indicated Common Equity Cost Rate Through Use of the Capital Asset Pricing Model

	Of the Capital Asse	r Fricing Wioder	
	1	<u>2</u>	<u>3</u>
	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 5.8% (1)	CAPM Result Including Risk-Free Rate of 5.3% (2)
	Tra	ditional Capital Asset Pricing Model (3)	-
Proxy Group of Eight AUS Utility			
Reports Water Companies	0.80	4.6 %	9.9 %
American States Water Co	0.90	5.2	10.5
Aqua America, Inc	NA	NA	NA
Artesian Resources Corp	0.90	5.2	10.5
California Water Service Group	0.90	5.2	10.5
Connecticut Water Service Inc.	0.85	4.9	10.2
Middlesex Water Company	0.70	41	9.4
SJW Corp.	0.55	3.2	8.5
York Water Co		4.6 %	10.2 % (4)
Average	0.80	4,0 %	10.2 70 (4)
Proxy Group of Four Value Line (Standard Edition) Water Companies			
American States Water Co	0 8 0	46 %	9.9 %
Agua America, Inc.	0 90	5 2	10.5
California Water Service Group	0 90	5.2	10.5
Southwest Water Company	0.90	5.2	10.5
Average	0.88	5.1 %	10.4 % (4)
	E	mpirical Capital Asset Pricing Model (5	L
Proxy Group of Eight AUS Utility Reports Water Companies			
American States Water Co.	0 80	4.9 %	10.2 %
Agua America, Inc.	0 90	5 4	10.7
Artesian Resources Corp.	NA	NA	NA 40.7
California Water Service Group	0.90	5.4	10.7
Connecticut Water Service Inc	0.90	5 4	10.7 10.4
Middlesex Water Company	0.85	5.1	98
SJW Corp.	0.70	4.5	9.1
York Water Co	0.55	3.8	
Average	0.80	4.9 %	10.2 % (4)
Proxy Group of Four Value Line (Standard Edition) Water Companies			
American States Water Co.	0.80	4.9 %	10.2 %
Aqua America, Inc.	0.90	5.4	10.7
California Water Service Group	0.90	5.4	10.7
Southwest Water Company	0.90	5.4	10.7
	0.88	<u>5.3</u> %	10.6 % (4)

Utilities Services of South Carolina Inc. Development of the Market-Required Rate of Return on Common Equity Using the Capital Asset Pricing Model for the Proxy Group of Eight AUS Utility Reports Water Companies and the Proxy Group of Four Value Line (Standard Edition) Water Companies Adjusted to Reflect a Forecasted RiskFree Rate and Market Return

Notes

From the three previous month-end (Apr. '07 – Jun. '07), as well as a recently available (Jul. 13, 2007), <u>Value Line Summary & Index</u>, a forecasted 3-5 year total annual market return of 9.8% can be derived by averaging the 3-month and spot forecasted total 3-5 year total appreciation, converting it into an (1) annual market appreciation and adding the Value Line average forecasted annual dividend yield

The 3-5 year average total market appreciation of 37% produces a four-year average annual return of 8.19 % $((1.37^{25})-1)$. When the average annual forecasted dividend yield of 1.62% is added, a total average market return of 9.81%, rounded to 9.8% (1.62% + 8.19) is derived.

The 3-month and spot forecasted total market return of 9.8% minus the risk-free rate of 5.3% (developed in Note 2) is 4.5% (9.8% - 5.3%). The Ibbotson Associates calculated market premium of 7 1% for the period 1926-2006 results from a total market return of 12.3% less the average income return on long-term U.S. Government Securities of 5.2% (12.3% - 5.2% = 7.1%). This is then averaged with the 4.5% <u>Value Line</u> market premium resulting in a 5.8%, market premium. The 5.8% market premium is then multiplied by the beta in column 1 of page 2 of this Schedule.

Average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the <u>Blue Chip Financial Forecasts</u> dated July 1, 2007 (see page 7 of Schedule PMA-10.) The estimates are detailed below: (2)

	30-Year
	Treasury Note Yield
Third Quarter 2007	5.3%
Fourth Quarter 2007	5.3
First Quarter 2008	5.3
Second Quarter 2008	5.3
Third Quarter 2008	5.4
Fourth Quarter 2008	<u>5.4</u>
Average	<u>5.3%</u>

The traditional Capital Asset Pricing Model (CAPM) is applied using the following formula: (3)

$$R_S = R_F + \beta (R_M - R_F)$$

Where Rs = Return rate of common stock

R_F = Risk Free Rate

β = Value Line Adjusted Beta

R_M = Return on the market as a whole

- Includes only those indicated common equity cost rates which are above 8.2%, i.e., 200 basis points (4)above the prospective yield of 6.2% on A rated Moody's public utility bonds (page 1 of Schedule PMA-
- The empirical CAPM is applied using the following formula: (5)

$$R_S = R_F + .25 (R_M - R_F) + .75 \beta (R_M - R_F)$$

Where Rs = Return rate of common stock

R_F = Risk-Free Rate

β = Value Line Adjusted Beta
R_M = Return on the market as a whole

Source of Information:

Value Line Summary & Index
Blue Chip Financial Forecasts, July 1, 2007
Value Line Investment Survey, April 27, 2007, Standard Edition and Small and Mid-Cap

Stocks, Bonds, Bills and Inflation – Market Results for 1926-2006 – Valuation Edition 2007

<u>Yearbook</u>, Morningstar, Inc., Chicago, IL

			Standard	Proxy Group of Elghi AUS Unity Reports Water Companies (1) Rate of Return Rate of Return	AN AUS UNITY F	eports Water	Companies (1)	te of Return	n Book Common	Equity, Net Wo	(1) Rate of Return on Book Common Equity, Net Worth or Partners' Capital			
Gram of One Hundred Porty-Two Non-Utildy			Erior	Standard						2-yaa	5-your Average (2)	1	5-Year Projected (3)	dont's
Companies Comparable to the Proxy Group of Eight	¥q;	Unad	of the	Deviation of Reta	2002	2003	2004	2005	2006	Percent	T-Statistic	Percent	T-St	T-Statistic
AUS Utility Reports Water Companies (1)	Can	D BR	3 1580	0.0995	12.1	6.43	56	9.6	*	1.6	3	13.0	ig ^g	(0.64)
ABM industries inc.	0.00	0.78	2.9490	0.0926	30.4	26.6	24.6	27.7	27.3	27.2	0.90	25		0.84
Advance Auto Parts	0.90	0.84	3.5672	0.1120	20.7	4.55	26.3	2 5	7 5	12.4		15.0		(0.31)
Airgas Inc.	56.0	, i	3.2330	0.00	24.5	47.4	2.00	S S	14.4	29.0		18.0		0.18
Affergan Inc.	2 0	99.0	3,3121	0.1040	14.7	10.0	12.8	33.3	9.6	15.8	(0.28)	21.5		0.75
Alied Capital Corp.	8 8	26.0	3.0704	0.0964	14.9	12.0	11.8	10.8	80 F	11.9	(0.68)	85. c		(0.07)
Alex Greetinos	0.90	0.79	3,2385	0.1017	11,2	m (B . C	4.6	2.5	4.7	(1.14)	8.5 0.01		(0.80)
AmensourceBergen	0.85	0.70	3.4158	0.1073	9.01	2.5	10.8	B C	0.17	6.01		14.0		(0.48)
Anadarko Pelroleum	0.80	0.83	3.2216	2,101.0	9 4	r or	20.4	3 7	18.3	19.0	0.05	11.0		(0.97)
Apatha Corp.	9 6	2.0	3.2244	0,1013	21.1	21.6	22.3	7.4.7	18.0	21.5	0.31	18.0		
Applebage Inti	9 0	0.63	3.5143	0.1104	29.4	31.7	28.5	25.6	18.0	26.6	48.0	12.0		(0.80)
Archer Daniels Midi'd	0.85	0.72	3.4393	0.1080	89	20 1	7. E	5	13.4	4. 6	(48.0)	140		(0.48)
Arraw Intil	0.75	0.57	3.2722	0.1028	13.1	5.5	2.5	3 6	16.7	12.4		6.5		(0.07)
Barnes Group	06.0	8 6	3 3067	0.1038	20.8	20.1	872	25.3	23.0	22.4		27.0		0.94
Bed Bath & Bryond	22.0	190	3.0321	0.0952	20.4	22.3	22.5	24.8	24.2	22.8		21.5		0.75
	0.95	0.86	3.0279	0.0951	43.8	36.5	28.3	35.7	81.8	.,	Ē.	21.0		0.67
Bob Evans Farms	0.85	0.75	3.0103	0.0945	13.4	9.1.4	2.2	e ;	S. 5	3) Dig.	(8.0)	0.50		1 00
Brinker Int'l	0.90	181	3.4277	0.1077	0.71	16.1	202	0.00		20.4		15.5		(0.23)
Brown & Brown	8 8	9.0	77197	0.0883	12.5	1 1	13.0	17.3	19.4	9.4.	_	17.0		0.02
Buckle (The)inc.	3 9	0.37	3.4979	0.1099	9.87	17.6	13.9	12.5		14,4		8.5		(1.38)
Bunga Lia.	98'0	18.0	3.3861	0.1064	22.6	22.7	1.7	26.1	•••	24.2	0.59	25.0		133
CBR Group	0.85	0.71	3.4492	0.1083	11,7	43.4	13.2	¥.5	.,		(0.02)	15.5		(57.0)
CDW Corp.	0.90	0.82	3.4887	0.1098	20.0	5.5.5	4.04	2.5	20.3	19.0	(0.35)	·		(0.48)
CLARCOR Inc.	0.98	5 8 5	2.9116	0.0914	6 K	. E	9 49	2.6			5.			(0.56)
CSX Carp.	985	0.70	3.0018	0.0971	13.8	14.1	53.1	7	13.5	13.7				(0.89)
Caba Caramara Cara.	0.85	0.88	3,3320	0.1047	12.1	11.8	10.2	11,5		10.9				(0.64)
Carlista Cos.	0.95	0.92	2.9249	0.0919	13.1	4.4	ф. ф.	18.3	80.0	10.2		0.1		(0.54)
Casey's Gen'l Stores	5.5	6.6	3.2352	9101.0	9 0	6.7	e e	16.0	20.9	•				(0.15)
Choica Point Inc.	2 E	980	3.4431	0.1081	68.0	58.5	33.9	30.5	24.7	•	€			1.06
Cook elation Brands	0.80	990	3.5421	0.1113	16.4	11.2	11.3	12.8	12.5	12.8	(0.59)	16.5		(0.07)
Com Products Int'l	0.90	0.82	3.2904	0.1033	7.6	0.5	, de	7 5	9 7			2.8		0.26
Corporate Executive	98	5.73	3.5080	0.1102	 	16.1	7.7	n (c)		11.9	-	14.0		(0.48)
Corrections Corp. Amer.	98.0	3 5	3 0071	0.0944	12.5	0.1	1.6	Ē	•	11,6		12.0		(0.80)
Costo vyzorasale	8 8	0.94	2.8063	0.0881	13.9	13.3	17.7	18.		. 16.2	(0.24)	2, 3		(0.48)
Curis Wright	0.80	0.69	3.2501	0.1021	10.1	10,9	E :	E 2	10.6	10.9	47	17.5		5 0
DaVita Inc.	98.0	0.75	3,1065	0.0976	210.3	53.2	6.0	4.07	5.6			11.5		(0.89)
Dat Mante Foods	6.75 6.00 6.00 6.00	0.55	3.3444	0.0910	5.5	42.1	51.2	92.6	56.5	59.6	(4)	31.5	€.	2.39
	0.95	0.87	3.0570	0.0960	16.8	15.2	14.6	=		13.9	_	20.5		0.59
Dionex Corp.	0.90	0.84	3.1400	0.0986	21.0	7.61	22	24.9	19.1	21.5	E 0	24.0		(0.23)
Donaldson Co.	0.90	 	2.6322	0.0890	7.	2.13	10.8	13.7		30.6		14.0		(0.48)
ESCO Technologies	3 5	 	3.4143	0.1072	. 6	16.3	15.2	4.		15.3	(0.33)	13.5		(0.56)
Rast West Bencord	8	98.	3.0038	0.0943	6.7	7.2	16.5	30.1	20.5	16.2		22.0		0.84
Edwards Lifesciences	0.70	0.53	2.8400	0.0892	15,4	15.2	99	18.1		16.5		16.0		0.35
Energizer Holdings	0.80	0.63	3.3041	0.1038	26.4	21.0	9.4	13.5	12.6	19.0	Ē	13.5		(0.56)
Griffon Corp.	08.0	9 9	3.323	0.0800	6 1		17.1			10.		18.0		0.18
IN COO.	96.0	8 6	3,0419	0.0865	17.0	12.6	12.5	Ë		12.9	_	13.0		(0.64)
Harley-Davidson	0.90	0.7B	3.2512	0.1021	26.0	25.7	27.6	•,		28.6		26.0		. 4. c
Hemai's Entertain	0.90	0.82	2.8778	0.0904	22.9	18.7	16.8			4.0°	(0.32)	21.0		0.67
Hesbro Inc.	5.83	0.90	2.9060	0.0913	D C	2.7	2.6		. 4 5 75	i uzi		60		(1,70)
Healthcare Rity Trust	3	3	•		;									

			for a Proxy G	roup of One Huni roxy Group of El	for a Priory Group of One Hundrad Forty-Two Non-Ulifiy Companies Companies (1) Proxy Group of Eight AUS Littly Reports Water Companies (1) Rate of Return Rate of Return	on-Utitty Compa	nes Comparab npanies (1) Rate o	se to the	ook Common E	Graup of One Hundrate Ferry-Two Mont-Uitkiy Companies Companie to the Proxy Group of Einst AUS Utility Reports Water Companies [1] Fishe of Return on Book Common Equity, Net Worth or Perfects	Partners' Capit	1	(F) haban
Proxy Group of One Hundred Forty-Two Non-Utility Companies Comparable to the Proxy Group of Elght	P	Chad		Standard			,000	9000	9000	Derrent	Student's Student's	a	Student's Student's
AUS Utility Reports Water Companies (1)	Beta	Beta	Regression	01 54613	18.5	26.	20.7	21.7	23 0	20.6	0.22	180	0.18
Home Dapot (DEXX Labs.	0.0	6	3.5329	0.1110	13.8	9.4	8.8	21.5	21.4	18.1	(0.04)	17.5	0.10
IHOP Carp.	080	0.70	3,1126	0.0978	2, E	4.0	5.40	2 B	. E	. 60 4	10.5	9	(1.38)
Imation Corp.	0.85	7.0	3.5032	0.1100	20.2	22.2	25.3	872	23.5	22.8	9.00	24. 2. 4. 3. 4.	1.25
נענטול וחב.	0.90	0.62	3,5421	0.1144	10.5	13.0	4.0	7.7	3 r	0.01	(0.88)	9 5	(1.21)
invacare Corp. Jones Apparel Group	9.5	26.0	3.0049	0.0944	18.7	12.9	41,4	11.1	4.1.4	12.7	(0.60)	3.5	(0.89)
Kelwood Co.	0.65	0.72	3.4702	0.1090	2.6	11,3 1 4 1	7.81	, 4 0 -	, e	16.2 2.2	(0.24)	17.5	0,10
Kohf's Corp.	9.65	0.97	3.3581	0,1126	. 9. 5.6	10.8	1.0	2	2.5	7.0	1.03	12.5	(0.72)
Les Communic. Higs. Lancaster Colony	0.80	0.65	2.9588	0.0929	16.6	16.1	4.5	0.5	40. A	en ur * 7 7 €	(0.37)	37.0 (4)	
Lauder (Estee)	0.65	0.74	3.2772	0.1029	15.8 8.11.8	18.7	12.3	12.0	12.5	11.7	(0.70)		(0.39)
Leggett & Plan Lilly (Eit)	0.80	0.78	2.9084	0.0913	32.7	28.6	 	29.1	31.5	30.0	- 18 85.0	28.5	1,41
Lineare Holdings	9.65	0.40	3.3947	0.1066	7 22	11.7	2.5. 4. 15.	5 t-	7 D	16.2 (4)		4.5	(60.0)
Lincoln Elea Hidgs.	6.0	. 6.	2.6215	0.0886	118.5	17.7	17.3	15.8	14.5	36.8	1.89	200	(1.21)
Lowe's Cos.	8.5	0.95	3.0459	0.0957	17.7	18.1	18.9	70.8 20.8	32.4	7. BT	0.08	16.0	0.18
Manor Care	1.00	0.97	3.1548	0.0991	1.1	16.7	10.2	26.1	31.7	20.4	0.20	17.5	0,10
Mattel Inc.	0.70	0.52	3.1030	0.0975	24.8	24.9	21.3	ត្ត	21.8	23.1	0.47	25.0	(6.09)
Mathews int?	0.80	0.67	3.5059	0.1103	12.6	12.5	12.4	12.5	4. 0. 4.	12.8	(0.59)	12.0	(0.80)
McKesson Corp. Meditopic Inc.	0.70	0.49	2.9422	0.0924	21.8	22.0	21.7	28.6	25.5	23.9	0.56	25.0	1.33
Milipore Carp.	0.95	0.88	3.1081	0.0976	28.7	20.4	17.8	16.8	6.51	0.45	(0.40)	5.6 9.5	(1.21)
Murphy Oil Corp.	8 6	0.87	3.0156	0.0947	20.8	20.2	21.6	25.8	24.9	22.6	0.42	22.0	0.84
Nordolk Southern	8	0.95	3.4080	0.1070	7. 5	2.6	10.9	12.5	15. 15.	19.7	(0.60)	13.0	(0.64)
O'Reilly Automotive	90.0	0.83	2.8584	0.0801	16.2	20.3	25.4	28.4	27	22.2	0.38	13.0	(0.64)
Occidental Periorating	0.96	0.87	3,1281	0.0982	181	13.1	13.1	13.0	10.2	13.5	(0.52)	0.4	(0.48)
Pacific Cap. Bancorp	8 8	0.82	3.2674	0.1026	20.2	19.0		17.71	26.8	22.1	0.37	18.0	0.18
Pacty Carp.	3 5	0.96	2.8764	0.0903	9 09	16.4	14.4	12.4	12.3	12.7	(0 00)	14.5	(0.39)
Papa John's Int'	57.0	0.62	3.1117	0.0977	38.4	23.0	28.0	23.7	32.0	29.t	0.09	18.0	. O. 18
Pens Viginia Res.	96.0	0.65	2.8562	0.0897	17.B	2.8	8.	5.3	3.2	5.7	(1.32)	50 t	(1.70)
Pepsi Battling Group	59.5	0.68	3.4317	0.1078	23.5	22.2	23.4	22 8	25.0	30.6	1.25	13.0	(0.64)
Parigo Co.	0.00	0.77	2.8296	0.0889	47.9	19.5	23.6	57.8	21.0	27.0	0.88	19.0	0.34
Philips-Van Housen	8	76.0	3.3892	0.1058	11.2	17.1	6 . 5	18.3 F. 5	15.6	30.4	(0.22)	31.0 (4)	
Paol Corp.	1.00	0.70	3,8882	0.134	16.2	13.2	7.6	9 9 4	6.6	10.6	(0.81)		
Quest Diagnostics	0.85	0.72	3.3321	0.1047	18.1	18.2	22.2	9.0	27.2	Di C	6.14	10.5 2.5	0.43
RARE Hospitally	0.95	76.0	3.3702	0.1059	7.6 8.4	12.0	10.3	2. 4. 0. 4.	4. 4. 9. 10.	11.6	(0.73)	12.5	(27.0)
RUCOP.	98.0	0.87	3,0845	0.0972	11.8	14.1	14.5	14.7	16.2	14.7	(0.39)	18.0	0.18
Regis Corp.	0.60	0.80	3,0946	0.0972	15.8	4.6.0	15.3	13.7	11.7	15.5	(0.31)	4.5	(0.39)
Resmed Inc. Respironns inc.	3 6	0.77	3.2990	0.1036	11.5	13.5	13.8	4	13.1	13.2	(0.55)	13.5	(0,56)
Ross Stores	6.5	0.95	3.6309	0.1140	31.3	30.2	23.5	23.9	26.6	27.1	0.88	19.0	0.34
Roby Tuesday St M. Compretion	9 E	0.53	3.1371	0.0985	39.6	53.4	61.7	36.5	26.5	43.5 (4)		25.5	1.41
STERIS Corp.	0.70	0.49	3.4605	0.1087	6.0	8.5	7 5		4.5	11.9	(0.68)	10.0	(0.89)
SUPERVALUING.	0.75	0.60	3.3673	0.1058	13.7	13.9	23.2	13.2	12.4	. E	(0.56)	16.0	(0.15)
Sensient (nemy) Sensient Techn.	0.96	0.85	2.9419	0.0924	16.2	13.4	5.5	6. 5	4.6	11.9	(0.68)		(4) (2.48
ServiceMester Co.	0.80	0.80	3.1508	0.0989	2.5	10.0	15.7	4.0	10 15 10	9.1	(0.97)		
Sonia Corp.	0.75	0.56	3.3634	0,1056	7.02	19.7	40.0	49.6 A 4	5 5 6	19.0	5.0	28.5	06.1
St. Joe Corp. Standax Intl	1.00	0.97	3.3691	0.1064	4.11	2 -	13.5	2 4	10.5	12.2	(0.65)	15.0	(0.31)
Stanley Works	0.50	0.82	3,1559	0.0991	70.7	12.8	20.2	18.9	18.7	0. 10. 0. 10.	0.03 (0.03)	22.5	0.92
Starbucks Corp. Stryker Corp.	0.80	9.0	3.0723	0.0965	23.8	21.0	21.3	22.	19.8	21.6	0.32	24.5	1.25
Sybase Inc. 7 IX Companies	0.95	0.96	3.5421	0.0976	13.7	42.4	. . .	33.5	3.9	38.4 (4)		36.0	(4) 3.13
Tennant Co.	0.95	0.91	3.2448	0.1019	0. å	8.5 5.47	8.5 0.5	11.9	0.57 8.57	13.4 (4)	(0.53)		(6) (1.13)
Themburg mig. Topps Ca.	0.90	0.80	3,4131	0.1072	9.6	6.0	8.8	5.6	6.0 E			12.5	(0.72)

Utilities Services of South Carolina, Inc.
Comparable Earnings Analysis
for a Proxy Group of One Hundred Forty-Two Non-Uhithy Companies Comparable to the
Proxy Group of Eleith AUS Utility Reports Water Companies (1).

			Standard	- ICAY GIODO VI EI	ALL HOO DIGHT IS	24.14.1412.47	Rate	of Return on E	laak Common i		or Partners' Capita	SI	
Proxy Group of One Hundred Forty-Two Non-Utility Companies Comparable to the Proxy Group of Eight AUS Utility Reports Water Companies (1)	Adi. Beta	Unadj. Beta	Error of the Regression	Standard Deviation of Sets	2002	2003	2004	2005	2005	5-year Av	verage (2) Student's T-Statistic	5-Year Proje	Student's T-Statistic
	1.00	0.93	2.9218	0.0918	47.4	18.5	26.0	29 2	32.9	24.8	0.95	33.0 (4)	2 54
Tore Co.	1.00	0.95	3.5679	0.1121	20.9	19.2	17.4	19.2	20.5	19.4	0.09	14.0	(0.48)
Total System Svcs.	1.00	0.96	3.4380	0.1080	42 9	21.0	29.9	25.7	23.5	28.5	1.04	20.5	0.59
Tupperware Brands	0.65	0.46	3.2754	0,1029	30.5	35.6	24.1	16.6	20.0	25.6	0.75	25.0	1,33
UnitedHealth Group	0.75	0.57	3.5183	0.1105	19.0	17.7	13.2	13.2	10.9	14.6	(0.38)	12.0	(0.60)
Universal Health Sv 'B'	0.85	0.74	3,5600	0.1118	30.5	27.9	22.8	21.6	18.2	74.2	0.59	16.0	(0.15)
WD-40 Co.	0.95	0.87	3.3956	0.1167	6.3	6.4	7.0	7,9	10.1	7.5	(1.13)	11.0	(0.97)
Washington Group Int'l	0.85	0.75	3.6296	0.1140	9.4	12.4	5.4	10.0	12.5	9.9	(0.89)	12.5	(0.72)
WeilPoint Inc.	0.95	0.87	3.3135	0.1041	13.0	12 0	14.4	16.1	15.4	14.4	(0.42)	17.0	0.02
Wolverine World Wide	1.00	0.96	3.6256	0.1139	13.4	14 1	15.1	13.1	13.0	13.7	(0.49)	12.0	(0.80)
Zebra Techn. 'A' Zimmar Holdings	0.75	0.60	3,4973	0.1098	70.4	9.3	15.2	16.5	17.0	25.7	0.74	19.0	0,34
Average for the Non-Utility Group	0,89	0.79	3.2264	0.1014									
Average for the Proxy Group of Eight AUS Utility Reports Water Companies	0.80	0.67	3.2277 (5	0.1014									
Mean										17,1%		16.2%	
Conclusion (6)											16.7% (6)		
Conservative Mean (7)										14,4%		14.2%	
Conservative Conclusion (8)											14,3% (8)		

See pages 6 and 7 for notes.

Utities Services of South Carplina, Imp.
Comparable Earnings Analysis
for a Proxy Group of One Hundred Seventh-Three Non-Utility Comparies Comparable to the
Proxy Group of Four Value Line (Standard Edition) (Water Comparies [3])
Rate of Rotum on Book Common Equity, Not Worth or Partners' Capital
Rate of Rotum on Book Common Equity, Not Worth or Partners' Capital

			Standard Error	Standard				I POLICE IL GI	GOOK COMMON	Equity, Not Worth 5-year Av	erage (2)	5-Year Proj	
Proxy Group of One Hundred Seventy-Three Non-Utility	Adi.	Unad).	error of the	Daviation							Shudent's		Student's
Companies Comparable to the Proxy Group of Four Value Line (Standard Edition) Water Companies (9)	Bets	Bets	Regression	of Beta	2002	2003	2004	2005	2006	Percent	7-Statistic	Perpent	T-Statesto
ABM industries inc	0.80	0.66	3,1680	0.0995	12.1 %	8.2	9.5	% 9.6	% 8.9	9.7 %	(0.86)	13.0 %	(0.55
Abbott Labs.	0.90	0.78	2.9490	0.0926	30 4	26 6	24.6	27 1	27 3	27 2	1 07	22.0	1 05
Advance Auto Parts	0.90	0.84	3.5672	0.1120	20.7	25.4	26.3	25.5	22.4	24.1	0.73	20.0	0.70
Airpas Inc.	0 95	0.91	3.2330	0.1015	11.7	11.8	11.3	13.7	13 7	12 4	(0.56) (0.58)	15 0 12 5	(0.20 (0.64
Albany Int'i 'A'	1.05	1,03	2.9631	0.0931	13.7	11.5	9.8	12.9	12.8 19.2	12.2 12.9	(0.50)	18.0	0.34
Albemarie Corp.	1.05	1.07	2.8012 2.9627	0.0880	12.6 24.5	10.3 42.4	10.8 33.2	11.8 30.4	14.4	29.0	1.26	18.0	0.34
Allergan inc.	0.85 0.80	0.74 0.68	3.3121	0.1040	14.7	10.0	12.6	33.3	8.6	15.8	(0.19)	21.5	0.96
Allied Capital Corp.	1.00	0.97	3.0704	0.0984	14.9	12.0	11.8	10.8	9.8	11.9	(0.62)	16,5	0.07
Amer. Greetings	0.90	0.79	3,2385	0.1017	11.2	8.3	7.8	7.4	2.5	74	(1,11)	9.5	(1.18
AmensourceBergen	0.85	0.70	3.4158	0.1073	10.8	11.2	10.6	8.3	11.6	10.5	(0,77)	12.0	(0.73
Anadarko Petroleum	0.90	0.83	3.2216	0,1012	11.8	14.4	17.Z	22.3	18.7	16.9 12.2	(0.07) (0.58)	14,0 15.0	(0.38
Annaly Capital Mgmt.	1,00	0.98	3,1994	0.1005	20.3	15.7	14.5	4.9 24.9	5.6 19.3	12.2	0.16	11.0	(0.91
Apsche Corp.	0.90	0.80	3.3705	0.1059 0.1013	11.5 21.1	19.1 21.6	20.4	24.7	18.0	21.5	0.44	18.0	0.34
Applebee's (nt')	0.85 0.80	0.73 0.63	3.2244 3.5143	0 1104	29.4	31.7	28.5	25.6	18.0	26.6	1.00	12.0	(0.73
Apria Healthcare	0.80	0.63	3,4393	0.1050	5.6	6.2	9.7	10.9	13.4	9.4	(0.89)	12.5	(0.64
Archer Daniels Midl'd	0.75	0.57	3,2722	0.1028	13.1	13.3	12.5	8.3	10.7	11.6	(0.65)	14.0	(0.38
Arrow Int'l Barnes Group	0.90	0.84	3,5368	0.1111	13.0	10.3	10,8	13.5	14.2	12.4	(0.56)	16.5	0.07
Bed Bath & Beyond	0.95	0.90	3.3062	0.1038	20.8	20.1	22.9	25.3	23.0	22.4	0.54	22.0	1.05
Barkley (W.R.)	0.95	0.85	2,7787	0.0573	10.4	17.0	19.5	20.7	20.8	17.7	0.02	12.5	(0.64
Biomet	0.75	0.61	3.0321	0.0952	20.4	22.3	22.5	24.8	74.2	22.8	0.58	21.5 21.0	0.96
Black & Decker	0.95	0.66	3.0279	0.0951	43 6	36.5	28.3 5.7	35.7 6.8	41.8 7.5 8	37.2 (4 9.0	(0.93)	12.0	(0.73
Bob Evans Forms	0.85	0.75	3.0103	0.0945	13.4	11.4 10.6	12.1	10.9	3.5	96	(0.87)	10.0	(1.09
Borders Group	1.00	0.98	3,1287	0.0983	10.6	15.7	16.6	16.1	9.9	14.0	(0.381	16.5	0.07
Briggs & Stratton	1,05	1.02 0.61	3.3685 3.4277	0.1027	17.0	16.1	20.7	18.0	18.0	18.0	0.05	23.0	1.23
Brinker Int'l	1.00	0.98	2.9572	0.0929	22.7	31.7	23.4	26.8	13.6	23.6	0.67	23.5	1 32
Bristol-Myers Squibb Brown & Brown	0.96	0.87	2.8177	0.0885	21.2	22.2	20.5	19.7	18.5	20.4	0.32	15.5	(0.11
Buckle (The)inc.	0.90	0.78	3.6135	0.1135	12.1	11.3	13.0	17.3	19.4	14.6	(0.32)	17.0	0.16
C.H. Robinson	0.95	0.91	3.3881	0.1064	22.6	22.1	22.1	26.1	28.3	24.2	0.74	25.0	1.59
CBRL Group	0.85	0.71	3.4492	0.1083	11.7	13.4	13.2	14.6	38.5	18,3	0.09	15.5	(0.11
CDW Corp.	0.90	0.82	3.4887	0.1096	20.0	16.5	19.4	21.5	20.3	19.5	0.22	16.5 14.0	0.07
CLARGOR Inc.	0.95	0.85	2.9116	0.0914	14.6	14.7	14.9 6.8	15.8 9.7	15.4 11.6	15.1 8.4	(0.26)	13.5	(0.46
CSX Cerp.	1,00	0.93 0.70	2.9303 3.0918	0.0920	7,5 13.8	6.3 14.1	13.1	14.1	13.5	13.7	(0.42)	11.5	(0.62
CVS Caremark Corp.	0.85 0.95	0.70	3.0910	0.1047	12.1	11.8	10.2	11.5	8.6	10.9	(0.73)	13.0	(0.55
Cabot Corp. Cartisle Cos.	0.95	0.92	2.9249	0.0919	13.1	14.1	16.9	18.3	18.8	16.2	(0.14)	15.0	(0.20
Cassy's GenT Stores	1.00	0.94	3,2352	0,1016	9,8	8.3	9.1	120	10.0		(0.85)	13.0	(0.55
ChoicePoint Inc.	0.95	0.91	3.2895	0.1033	19.1	16.1	15.0	16.0	20.9	17.4	(0.01)	16.0	(0.02
Coca-Cola Bottling	0.75	0.56	3.4431	0.1081	69.0	58.5	33.9	30.5	24.7	43.3 (4		27.0	1,95
Columbia Sportswear	1.05	1.01	3,4586	0.1089	21.7	18.7	17.8	17.6	14.8	18.1	0.07	15.0 14.5	(0.20
Commerce Bancorp NJ	1.00	0.99	3.2219	0.1012	15.6	15.2	16.4 19.4	12.3 24.4	11.2 29.3	14.2 18.5	(0.36)	15.5	(0.25
Con-way inc.	1.00	0.99	3.3330	0.1047 0.1113	8.9 16.4	10.5 11.2	19.4	12.8	29.3 12.5 E	10.5	(0.52)	16.5	0.07
Constellation Brands	0.80	0.66 0.82	3.5421 3.2904	0.1033	7.6	8.3	8.7	7.4	9.3	8.3	(1.01)	17.5	0.25
Corn Products Inti	0.90	0.75	3.5080	0.1102	13.9	18.1	16.4	19.5	24,8	16.6	0.12	18.5	0.43
Corporate Executive Corrections Corp. Amer.	0.80	0.63	3,3849	0.1063	14.5	19.2	7.7	8.0	10.1	11.9	(0.62)	14.0	(0.38
Costco Wholesale	0.85	0.71	3.0071	0.0944	12.3	11.0	11.6	11,1	12.1	11.6	(0.65)	12.0	(0.73
Crane Co.	1.00	0.94	2.8063	0.0881	13.9	13.3	17.7	18.1	18.1	16.2	(0,14)	14.0	(0.38
Curtiss-Wright	0.80	0.69	3.2501	0.1021	10.1	10.9	11.3	11.8	10.6	10.9	(0.73)	11.5	(0.82
Gytec Inds.	1.05	1.06	3.0942	0.0972	13.3	12.0	13.2	11.4	10.6	12.1 ,70.1 (4	(Q.59) 5.78	17.5	0.25
DaVita Inc.	0.65	0.75	3,1065 3,5476	0.0976	210.3 9.3	53.2 7.9	41.5 8.2	24.4 5.5	21.3 9.1	,/U.1 (A B.D	(1.04)	9.5	(1.18
Datascope Corp.	1.10	1,11	3.5476 2.8711	0.0902	9.3 10.1	16.1	21.7	21.1	19.4	17.7	0.02	17.5	0.25
Daero & Co. Del Monte Foods	0.75	0.55	2.5172	0.0916	14.1	16.6	126	10.4	10.5	12.8	(0.52)	11.5	(0.82
Dell Inc.	0.90	0.84	3 3444	0.1050	43.5	42.1	51.2	92.6	68.5			31.5 (4)	2,75
Diebold Inc.	0.95	0.87	3.0670	0.0960	16.8	15.2	14.6	11.8	11.2	13.9	(G.40)	20.5	0.79
Dionex Corp.	0.90	0.84	3,1400	0.0986	21.0	19.7	22.6	24.9	19.3	21.5	0.44	24.0	1,41
Donaldson Co.	0.90	0.81	2.8322	0.0890	22.7	21.3	19,4	21.1	24.2	21.7	0.45	15.5	(0.11
ESCO Technologies	1.00	0.95	3.5629	0.1119	7.1	12.0	112.6	13.2	8.3	30.6	1,44	140	(0.38
East West Bancorp	1.00	0.94	3.4143	0.1072	16.1	16.3	15.2	14.8	14.1	15.3 16.2	(0.24) (0.14)	13.5 22.0	(0.46 1.05
Eastman Chemical	1.00	0.94	3,0038	0.0943 0.0892	6.7 15.4	7.2 15.2	16.5 15.5	30.1 18.1	20.5 17.0	16.2 15.5	(0.14)	16.0	(0.02
Edwards Lifesciences	0.70	0.53	2.8400 3.3041	0.0892 0.1038	15.4 26.4	15.2 21.0	16.6 45.5	18.1 63.2	17.0	10.5 55,7 (4		22.0	1,05
Energizer Holdings	0.60 1.00	1.00	3,3041	0.1038	25.4 15.7	15.5	18.3	18.4	21.2	18.2	0.08	15.0	(0.20
Ethan Alen Interiors	1.00	0.95	2,7920	0.0877	38.6	31.7	12.8	16.0	12.0		0.52	12,5	(0.84
Fannis Mae G&K Services 'A'	1.10	1.10	3 4599	0.1087	11.2	8.9	8.3	8.4	7.6	8.9	(0.95)	9.5	(1.18
Genlyte Group	1.00	0.98	3.5243	0,1107	14,0	11,5	13.2	15.6	16.0	14.5	(0.33)	13.5	(0.46
Griffon Corp.	0.90	0.84	3.3231	0.1044	11.6	15.1	16.9	13.5	12.6	13.9	(0.40)	13.5	(0.46
HNI Corp.	0.80	0.68	2.8634 3.0419	0.0899 0.0955	14.1	13.6 12.6	17.1 12.5	22.7 11.3	24.9 15.9	18.5 12.9	(0.51)	18.0 13.0	0.34 (0.55
	0.90	0.63			12.0								

Ubbees Senness of South Caroling, Inc. Comparable Earnings Analysis (or a Proxy Group of One Hundred Seventh-Tree Non-Ublik Companies Comparable to the Proxy Group of Four Yelius Line (Standard Edition) Water Companies (9) Rate of Rotum on Book Common Equity, Net Worth or Portners' Capital Rate of Rotum on Book Common Equity, Net Worth or Portners' Capital

			Standard Error	Standard			7.00			Equity, Net Worth 5-year A	verage (2)	5-Year Projected (3)		
Proxy Group of One Hundred Seventy-Three Non-Ublity Companies Comparable to the Proxy Group of Four	Adi.	Unadi.	of the	Deviation							Student's	_	Student's	
Value Line (Standard Edition) Water Companies (9)	Bata	Beta	Regression	of Bata	2002	2003	2004	2005	2006	Percent	Y-Statistic	Percent	T-Statistic	
Harley-Davidson	0.90	0.78	3.2512	0.1021	26.0	25.7	27.6	31.1	37.8	29.6	1.33	26.0 :3.0	1,77	
Harrahis Entertain.	0.90	0.82	2,8778	0.0904	22 9	18.7	168	8 4	10.2	15.4 13.3	(0.23) (0.46)	21.0	(U.55 D.88	
Hasbro Inc.	0.95	0.89	2.9060	0.0913	8.9	153 77	13.3	13.8	15.0	6.1	(1.25)	6.5	(1.71	
Healthcare R'ity Trusi	0.60	0.68	2.9243	0.0918	9.0 18.5	19.2	5.0 20.7	21.7	23.0	20.6	0.34	18.0	0.34	
Home Depot	1.00	0.97 0.53	3.1419 3.5329	0.0987	13.8	14.9	18.8	21.5	21.4	18.1	0.07	17.5	0.25	
IDEXX Labs.	0.70	0.53	3.1126	0.0978	11.2	11.1	12.0	15.0	15.3	12.9	(0.51)	20.0	0.70	
HOP Corp. Imaton Corp.	0.90	0.79	3.5117	0.1103	9.3	9.4	5.4	9.6	8.3	8.4	(1.00)	8.5	(1.36	
imagon Corp. imi Game Tech.	0.85	0.71	3.5032	0.1100	20.2	22 2	25.3	22.9	23 Z	22.6	0.58	24.5	1 50	
Invacare Corp.	0.85	0.75	3.2844	0.1032	13.5	11.6	10.0	7.2	7.8	10.0	(0.82)	9.5	(1.18	
Iron Mountain	1.05	1.04	3.0148	0.0947	7,1	7.9	7,7	8.3	8.3	7.9	(1.05)	12.0 11.5	(0.73	
Jones Apparel Group	1.00	0.97	3,0049	0.0944	16.7	12.9	11.4	11.1 12.9	11,4 16.0	12.7 12.5	(0.53) (0.55)	14.5	(0.29	
Kaydon Corp.	1.05	1,07	2.9492 3.4702	0.0926	10.1 9.2	10.9	12.4 9.7	7.5	6.7	89	(0.95)	9.0	(1.27	
Kellwood Co.	0.85 0.85	0.72 0.71	3.4702 3.5858	0.1090	18.3	14.1	147	14.1	19.8	16.2	(0.14)	17.5	0.25	
Kohl's Corp.	1.00	0.97	3,3681	0.1058	9.6	10.6	10.1	1,3	11.9	6.7	(0.97)	12.5	(0.64	
L-3 Communic Hidgs	0.80	0.55	2.9588	0.0929	16.5	16.1	13.4	13.0	15.3	14.9	(0.29)	15.0	(0.20	
Lancaster Colony Lauder (Esten)	0.85	0.74	3.2772	0.1029	15.8	18.7	21.7	25.6	25.7	21.5	0.44	37.0 (4)	3.73	
Cappet & Platt	1.00	0.95	3.0117	0.0946	11.6	9.7	12.3	12.3	12.5	11.7	(0.64)	14.5	(0.29	
LRIV (EII)	0.90	0.78	2.9084	0.0913	32.7	28.6	28.1	29.1	31.5	30.0	1,37	25.5	1.68	
Lincoln Elec Hidgs	1.05	1.03	2.9254	0.0919	17.2	11.7	14.8	17,4	20.0	16.2 (4		14.5 9.5	(C 29 (1.18	
Liz Claibome	0.90	0.61	2.8215	0.0886	118.5	17,7	17.3	15.8	14.5 19.7	36.8 18.7	2.12 0.13	9.5 15.0	(0.20	
Lawe's Cas.	1.00	0.95	3.0459	0.0957	17.7 13.0	18.1 13.6	18.9 17.1	19.3 20.8	19.7 32.4	18.7 19.4	0.13	18.0	0.34	
Manor Care	0.95	0.91	2.9351 3.1548	0.0922	13.0	15.7	15.2	26.1	31.7	20.4	0.32	17.5	0.25	
Marethen Oil Corp.	1.00	0.97	3.1548	0.0943	14.8	15.7	19.8	18.0	19.8	17.6	0.01	18.0	0.34	
Masco Corp.	0.70	0.52	3.1030	0.0943	24.6	24.9	71.3	23.1	21.6	23.1	0.62	25.0	1.59	
Mattel Inc.	0.80	0.67	2 9589	0.0932	21.1	17.5	18.0	17,9	16.6	18.2	0.08	14.5	(0.29	
Matthews Int'l	0.95	0.68	3,5059	0.1101	12.6	12.5	12,4	125	14.1	12.8	(0.52)	12.0	(0.73	
MaKessan Corp. Millipore Corp.	0.95	0.68	3.1081	0.0976	28.7	20.4	16.5	16.8	16.5	19.6	0.25	21.0	Q.88	
Murphy Oil Corp.	1.00	0.97	3,5379	0.1111	6.4	13.1	17.8	21.0	14.9	14.6	(0.32)	9.5	(1.18	
New York Community	0.90	0.63	2.7805	0.0873	19.0	18.5	17.2	18.5	17.1	16.1	0.07	15.0	(0.20	
Newell Rubbermaid	0.95	0.87	3.015G	0.0947	20.5	20.2	21.5	25.8	24.9	22.6	0.56	22.0	1.05	
Nable Energy	1,00	0.98	3.3280	0.1045	1,7	13.1	22.4	20.4	21.1	1 5 ,7	(0.20)	7.0 15.0	(1.63	
Nordson Corp.	1.05	1,06	3.3683	0.1068	11.7	11.7 7.6	15.8	23.7 12.5	22.7 15.4	17.1	(0.04)	12.5	(0.54	
Norfolk Southern	1.00	0.95	3,4080	0.1070	7.1		12.4	13.9	13.1	13.0	(0.49)	13.0	(0.55	
O'Relly Automotive	0.95	0.85	3.1207 2.8684	0.0980	12.6 16.2	12.8	25.4	26.4	22.7	22.2	0.52	13.0	(0.55	
Oscidental Petroleum	1.00	0.93	3.5563	0.0901	14.5	14.6	17.7	19.6	19.4	17.2	(0.03)	18.0	0.34	
Oshkosh Truck	1.00	0.99	3.3319	0.1046	0.9	13.5	22.7	24.8	19.1	16.2	(0,14)	12,0	(0.73	
Overseas Shipholding Owens & Minor	0.95	0.87	3,1281	0.0982	16.1	13.1	13.1	13.0	10.2	13.5	(0.44)	14.0	(0.38	
Pacific Cap, Bancorp	5.90	0.82	3.2674	0.1026	20.2	19.0	19.1	18.2	15.3	18.4	0.10	70	(1.63	
Pactiv Corp.	1.00	0.93	2 9353	0.0922	24.5	21.7	19.7	17.7	26.8	22.1	0.51	18.0	0.34	
Pall Corp.	1.00	0.96	2.8764	0.0903	8.9	15.4	14,4	12.4	12.3	12.7	(0.53)	14.5	(0.29	
Papa John's Int1	0.75	0.62	3.1117	0.0977	38.4	23.0	28.0	25.7	32.0	29.4	1.31 0.21	23.5 18.0	1.32	
Penn Virginis Res.	0.75	0.58	3.0425	0.0956	15.2	14.6	22.9	23.0 5.1	21.2 3.2	19.4 5.7	(1.30)	18.0	(1.71	
Penn, R.E.I.T.	0.80	0.65	2,8562	0.0897	12.5	2.8 11.4	4.6 9.5	11.9	11.0	11.1	(0.70)	13.5	(0,46	
Pentair Inc.	1.05	1.03	3.4951 3.4317	0.1056	23.5	22.4	23.4	22.8	25.0	23.4	0.65	25.5	1.68	
Papsi Betting Group	0.90	0.68	3.5332	0.1110	10.7	11.6	112.6	6.4	11.6	30.6	1,44	13.0	(0.55	
Perrige Co.	0.90	0.02	2 8296	0.0889	47,9	19.5	23.6	22.9	21.0	27.0	1.04	19.0	0.52	
Pfizer Inc. Phillips-Van Heusen	1.00	0.97	3.3992	0.1068	11.2	17,1	19.4	18.3	15.8	16.4	(0.12)	12.5	(0.64	
Pego Producing	1,05	1.03	3.5596	0.1118	9.9	20.3	15.1	13.8	5.4	12.9	(0.51)	7.5	(1.54	
Polo Ralph Lauren 'A'	1.00	0.96	3.5150	0.1104	15.2	13.0	15.3	15.0	15.0 E	14.7	(0.31)	11.5	(0.82	
Pool Corp.	0.85	0.70	3.3882	0.1054	29.1	26.0	30.4	30.6	34.2	30,1	1.38	31.0 (4)	2.66	
Quaker Chemical	1.00	0.95	3.6102	0,1134	16.2	13.2	7.6	6.4	9.7	10.6	(0.76)	14.5	(0.25	
Quest Diagnostics	0.65	0.72	3.3321	0.1047	18.1	18.2	22.2	19.8	21.2	19.9	0.26	19.5 12.5	0.61 (0.64	
RARE Hospitality	0.95	0.91	3.3702	0.1059	11.6	12.0	12.2	12.6	14.9 14.5	12.7 11.6	(0.53) (0.65)	12.5	(0.64	
RLi Corp.	0.85	0.71	2.8032	0.0880	8,4	10.6 14.1	10.3 14.5	14.0 14.7	14,5 18.2	11.6	(0.65)	125	0.34	
RPM Inti	0.95	0.87	3.0945	0.0972	11.8 5.4	14.1 6.3	5.7	10.7	14.8	8.7	(0.97)	12.5	(0.5-	
Regal-Beloit	1,10 0,90	1,11 0,80	3.0218	0.0949	15.8	15.4	15.3	13.6	11.7	14.4	(0.34)	11.0	(0.91	
Regie Corp.	0.80	0.69	3.5906	0.1126	19.4	18.0	15.8	13.7	12.5	15.5	(0.22)	14.5	(0.29	
ResMed Inc.	0.90	0.77	3.2990	0,1036	11.5	13.5	13.8	14.1	13.1	13.2	(0.47)	13.5	(0.46	
Respirance Inc. Reper Inds.	1,10	1,08	2,9599	0.0930	18.3	9.8	8.4	12.0	13.1	12.3	(0.57)	11.5	(0.62	
Ruby Tuesday	0.90	0.83	3.4564	0.1086	22.7	21.3	20.9	18.2	19.2	20.5	0.33	18.0	0.52	
Ruddick Corp.	0.65	0.75	2,7792	0.0673	12.3	12.1	11.8	11.3	10,8	11.7	(0.54)	12.5	(0.64	
SLM Corporation	0.70	0.53	3.1371	0.0985	39.6	53.4	61.7	36.5	26.5	,43.5 (-		25.5	1.68	
SUPERVALU INC.	1.00	0.93	3.2994	0.1036	12.8	13.1	13.3	12,3	8.5	120	(0.60)	11.5 16.0	(0.02	
Schein (Henry)	0.75	0.60	3,3673	0.1058	13.7	13.9	12.3	13.2	12.4	13.1	(0.48)		1.05	
Scotts Mirecle-Gro	1.00	0.99	3.0179	0.0948	17.0	14 3	11.5	9.8	12.3 9.4	13.0	(0.49) (0.62)	22.0 11.0	(0.91	
Sensient Techn.	0.95	0.85	2.9419	0.0924	16.2	13.4	11.5	9.1	9.4 17,1	17.0	(0.62)	32.0 (4)	2.84	
ServiceMester Co.	0.90	0.80	2.8031	0.0880	14.0 2.0	19.4 10.1	17.4 15.7	17.1 9.4	17,1 8.5 €	9.1	(0.92)	10.0	(1.09	
Smithfield Foods	0.95	0.88 0.56	3,1808 3,3634	0.1056	20.7	19.7	18.6	19.6	20.1	19.8	0.25	28.0	1.77	
Some Corp. St. Joe Corp.	0.90	0.83	3.0521	0.0959	31.5	15.6	17.2	24.6	10.5	19.9	0.28	28.5	2.21	

Utilities Services of South Carolins Inc.
Comparable Earnings Analysis
for a Praxy Group of One Hundred Seventy-Three Non-Utility Companies Comparable to the

	Proxy Group of Four Value Line (Standard Edition) Water Companys (8) Proxy Group of Four Value Line (Standard Edition) Water Companys (8) Proxy Group of Four Value Line (Standard Edition) Water Companys (8) Proxy Group of Four Value Line (Standard Edition) Water Companys (8)												
			Standard				75,810			5-year Av	erege (2)	5-Year Prop	
Praxy Group of One Hundred Seventy-Three Non-Utility			Error	Standard							Student's		Students
Companies Comparable to the Proxy Group of Four	Adj.	Unadj.	of the	Devration	2002	2003	2004	2005	2006	Percent	T-Statistic	Percent	T-Statistic
Value Line (Standard Edition) Water Companies (9)	Beta	Beta	Regression	of Beta				18 9	18.7	19.5	0.22	15.5	(0.11)
Stanley Works	0.90	0.82	3.1559	0.0991	20.7	18.8	20.2	23.7	26.1	16.2	0.08	22.5	1 14
Starbucks Corp.	0.75	0.58	3.4051	0.1070	126	12.9	15.6 12.6	11.9	9.8	12.2	(0.58)	11.0	(0.91)
Steak n Shake	1.05	1.06	3.3746	0.1060	13.8	12.9	21.3	22.1	19.8	21.6	0.45	24.5	1.50
Stryker Corp.	0.80	0.64	3.0723	0.0965	23.8	21.0	21.3 8.7	12.2	11.3	11.3	(0.68)	13.5	(0.46)
Sybase Inc.	1.00	0.96	3.5421	0.1113	13.7	10.5 42.4	41.3	33.5	33.9	38.4 (4		36.0 (4)	3.66
TJX Companies	0.95	0.86	3.1085	0.0976	41.0		14.5	17.0	17.8	16.7	(0.09)	19.5	0.61
Yarget Corp.	1.00	1.00	3.0816	0.0968	17.5	16.6		24.7	21.6	20.5	0.33	17,5	0.25
Techne Corp.	1.10	1.09	3.6070	0.1133	18.6	19.2	18.3		9.7	B. 1	(1.03)	12.5	(0.64)
Tektroniz Inc.	1.10	1.08	3.3456	0.1051	5.1	4.5	10.7	10,4	13.0	10.0	(0.82)	120	(0.73)
Tennant Co.	0.95	0.91	3.2448	0.1019	0.8	B 5	8.5		12.5	13,4 (4		10.0 (4)	(1,09)
Thomburg Mta.	0.80	0.69	3.0082	0.0945	14.4	14,2	13.0	12.8	6.0 E	5.8	(1.29)	12.5	(0.64)
Topps Co.	0.90	0.80	3,4131	0,1072	8.6	6.0	5.9	2.6	32.9	24.8	0.80	33.0 (4)	3.02
Toro Co.	1.00	0,93	2.9218	0,0918	17.4	18.5	26.0	29.2		19.4	0.21	14.0	(0.38)
Total System Sycs.	1.00	0.95	3.5679	0.1121	20.9	19.2	17,4	19.2	20.5	28.6	1.22	20.5	0.79
Tupperware Brands	1.00	0.96	3.4380	0.1080	42.9	21.0	29.9	25.7	23.5		(0.54)	12.5	(0.64)
United Stationers	1.10	1,10	3.1648	0.0994	11.7	12.3	13.4	127	12.9	128	(0.30)	12.0	(0.73)
Universal Health Sv. 'B'	0.75	0.57	3.5183	0.1105	19.0	17.7	13.2	13.2	10.9	14.8		9.5	(1.18)
	1,10	1.09	2,9171	0,1785	17.9	13.Z	6.7	9.2	8.8	11.2	(0.69)		(0.02)
Viad Corp.	0.85	0.74	3.5600	0.1118	30.5	27.9	22.8	21.6	18.2	24.2	0.74	16.0	(0.91)
WD-40 Co.	0.95	0.87	3.3956	0.1167	6.3	5.4	7.0	7.9	10.1	7.5	(1.10)	11.0	(1.00)
Washington Group Int1	1.05	1,02	3.4478	0.1083	9.5	10.4	11.3	11.4	11.3	10.8	(0.74)	10.5	
Werner Enterprises	0.95	0.87	3.3135	0.1041	13.0	12.0	14.4	16.1	16.4	14,4	(0.34)	17,0	0.16
Welvenne World Wide	1.05	1.06	3.5166	0.1105	10.8	15.2	14.7	13.1	5.2	11.8	(0.63)	10.0	(1.09)
Zale Corp.	0.75	0.60	3.4973	0.1098	70.4	9.3	15.2	16.5	17.5	25.7	0.90	19.0	0.52
Zimmer Holdings													
Average for the Non-Utility Group	0.92	0.85	3.2075	0.1013									
Average for the Proxy Group of Four Value (Line (Standard Edition) Water Companies	0.90	0.61	3,1940 (10	0.1003									
										16.0%		15.5%	
Mean											15.8% (6)		
Conclusion (6)													
Conservative Mean (7)										14.3%		14.1%	
											14.2% (8)		
Conservative Conclusion (8)													

See pages 8 and 7 for notes.

<u>Utilities Services of South Carolina, Inc.</u> <u>Comparable Earnings Analysis</u>

E Estimated

- Notes: (1) The criteria for selection of the proxy group of one hundred forty-two non-utility companies was that the non-utility companies be domestic and have a meaningful rate of return on book common equity, shareholders' equity, net worth, or partners' capital for each of the five years ended 2006 or projected 2010 2012 as reported in Value Line Investment Survey (Standard Edition). The proxy group of one hundred forty-two non-utility companies was selected based upon the proxy group of eight AUS Utility Reports water companies' unadjusted beta range of 0.37 0.97 and standard error of the regression range of 2.8023 3.6531. These ranges are based upon plus or minus three standard deviations of the unadjusted beta and standard error of the regression as detailed in Ms. Ahern's direct testimony. Plus or minus three standard deviations captures 99.73% of the distribution of unadjusted betas and standard errors of the regression.
 - (2) Ending 2006.
 - (3) 2010 2012.
 - (4) The Student's T-statistic associated with these returns exceeds 1.96 at the 95% level of confidence. Therefore, they have been excluded, as outliers, to arrive at proper mean historical and projected returns as fully explained in Ms. Ahern's testimony.
 - (5) The standard deviation of group of eight AUS Utility Reports water companies' standard error of the regression is 0.1418. The standard deviation of the standard error of the regression is calculated as follows:

Standard Deviation of the Std. Err. of the Regr. = $\frac{\text{Standard Error of the Regression}}{\sqrt{2N}}$

where: N = number of observations. Since Value Line betas are derived from weekly price change observations over a period of five years, N = 259

Thus,
$$0.1418 = 3.2277 = 3.2277$$
 $\sqrt{518} = 22.7596$

- (6) Mid-point of the arithmetic mean of the historical five year average and five year projected rate of return on book common equity, shareholder's equity, net worth, or partners' capital.
- (7) Arithmetic mean of historical five year rates of return and five year projected rates of return on net worth, common equity or partners' capital excluding those 20% and greater as well as those 8.2% or less, i.e., 200 basis points above the prospective yield of 6.2% on A rated Moody's public utility bonds (from page 1 of Schedule PMA-10.)
- (8) Mid-point of the arithmetic mean of historical five year rates of return and five year projected rates of return on net worth, common equity or partners' capital excluding those 20% and greater as well as those 8.6% or less, i.e., 200 basis points above the prospective yield of 6.6% on A rated Moody's public utility bonds (from page 1 of Schedule PMA-10.)
- (9) The criteria for selection of the proxy group of one hundred sixty-five non-utility companies was that the non-utility companies be domestic and have a meaningful rate of return on book common equity, net worth, or partners' capital for each of the five years ended 2006 or projected 2010 2012 as reported in Value Line Investment Survey (Standard Edition). The proxy group of one hundred sixty-five non-utility companies was selected based upon the

Exhibit No. ____ Schedule PMA-12 Page 8 of 8

Utilities Services of South Carolina, Inc. Comparable Earnings Analysis

proxy group of four Value Line (Standard Edition) water companies' unadjusted beta range of 0.51 – 1.11 and standard error of the regression range of 2.7731–3.6149. These ranges are based upon plus or minus three standard deviations of the unadjusted beta and standard error of the regression as detailed in Ms. Ahern's direct testimony. Plus or minus three standard deviations captures 99.73% of the distribution of unadjusted betas and standard errors of the regression.

(10) The standard deviation of the proxy group of four Value Line (Standard Edition) water companies' standard error of the regression is 0.1403 (3.1940 / 22.7596).

Source of Information: Value Line, Inc., June 15, 2007

Value Line Investment Survey (Standard Edition)

<u>Utilities Services of South Carolina, Inc.</u> Authorized Returns on Common Equity and Common Equity Ratios for Electric and Gas Distribution Companies for the Twelve Months Ended June 2007

			OF THE TWEIVE MICH	inis Linded Julie 2007			Second to a	
Date	Company	Type of Utility	State	Authorized Return on Common Equity	Authorized Common Equity Ratio		Moody's A Rated Public Utility Bond Yields (1)	Spread
C 1-10C	Maine Public Service	Electric	ME	10 20 %	50 00 %	(2)(6)	6 42 %	378 %
6-Jul-06 24-Jul-06	Central Hudson Gas & Electric	Electric	NY	960	45 00	(2)(4)(7)	6 40	3 20
		Gas	NY	9 60	45 00	(2)(6)(7)	6 40	3 20
24-Jul-06	Central Hudson Gas & Electric		WV	10.50	45 00		6 40	4 10
26-Jul-06	AEP West Virginia	Electric	NV V	10 05	42 B6	(2)(7)	6 40	3 65
28-Jui-06	Comprised the Edison	Electric	IL NY	9 55	41 60	(7) (9) (7)	6 37	3 18
23-Aug-06	New York State Electric & Gas	Electric	MN	10 54	51 67		6 37	4 17
1-Sep-06	Northern States Power	Electric	OR	10 00	50 00	(3)(9) (2)(9)	6 37	3 63
14-Sep-06	PacifiCorp	Electric	WV	11 00	43.56	(2)(9)	6 37	4 63
20-Sep-06	Kinder Morgan	Gas	MD	10.75	53 00	(2)(3)	620	4 55
25-Sep-06	Chesapeake Utilities	Gas Electric	NH NH	9.57	43 10	(2)(4)(7)	6 20	3 47
6-Oct-06	Unitil Energy Systems		NY	9 80	48 00	(2)(4)(6)	6 20	360
20-Oct-06	Orange & Rockland Utilities	Gas	MN	9.71	46 14	(2)(4)(0)	6 00	371
2-Nov-05	CenterPoint Energy Minnesota Gas	Gas	MN NJ	10 00	47 40		600	400
9-Nov-06	Public Service Electric & Gas	Gas	N.J IL	10 12	45.57	(2) (7)	5 98	4 14
21-Nov-06	Central litinois Light	Electric	IL IL	10 12	48 92	(7)	5.98	4 10
21-Nov-06	Central Illinois Public Service	Electric	iL IL	10 08	51.56	(7)	5 98	4 10
21-Nov-06	Illinios Power	Electric	Mi	11 00	35.06 *	(3)	5.98	5 02
21-Nov-06	Consumers Energy	Gas	WI UT	10 25	33 00		5 98	4 27
1-Dec-06	Pacificorp	Electric	CO	10 25	60.00	(2)(4)	5 98	4 5 2
1-Dec-06	Public Service of Colorado	Electric	VT		55.57	(2)	5.98	477
7-Dec-06	Central Vermont Public Service	Electric		10.75	49 74	(2)	5 80	5 10
21-Dec-06	Empire District Electric	Electric	MO	10 90			5 80	5 45
21-Dec-06	Kansas City Power & Light	Electric	, MO	11.25	53 69 52 76	(2)	5 80 5 80	4 45
22-Dec-06	Green Mountain Power	Electric	` VT	10 25 10 00	32 33 *	(2) (2)	580	4 20
5-Jan-07	OGE Electric Service	Electric	AR	10.00	32 33 44 00	(2)	5 80	460
5-Jan-07	Puget Sound Energy	Electric	WA		44.00		580	4 60
5-Jan-07	Puget Sound Energy	Gas	WA	10 40	42.94	201	5.80	5 20
9-Jan-07	SEMCO Energy Gas	Gas	MI PA	11 00 10 10	42.94	(2)	5 80	430
11-Jan-07	Metropolitan Edison	Electric			49 00	(7) (7)	5 80	4 30
11-Jan-07	Pennysivania Electric	Electric	PA	10 10	57.46	(1)	5.80	5 10
11-Jan-07	Wisconsin Public Service	Electric	Wi	10.90	57.46		5 80	5 10
11-Jan-07	Wisconsin Public Service	Gas	W	10 90			5.80	4 30
12-Jan-07	Portland General Electric	Electric	OR	10 10	50 00 (5) 54 13		5.80 5.80	5 00
19-Jan-07	Wisconsin Power and Light	Electric	w	10 80				5.00
19-Jan-07	Wisonsin Power and Light	Gas	W	10 80	54 13	400440	5.80 5.81	4 19
26-Jan-07	Fitchburg Gas & Electric	Gas	MA	10 00	E4 70 45)	(2)(4)	5 B1	4.59
8-Feb-07	PPL Gas	Gas	PA	10 40	51 79 (5)	(0)	5 96	4.59
14-Mar-07	Connecticut Natural Gas	Gas	CT	10 10	53 60 46 90	(2)	5 96	4 29
20-Mar-07	Delmarva Power & Light	Gas	DE	10 25		(2)(3)	5 90 5 90	4 07
22-Mar-07	Rockland Electric	Electric	N.J	9 97	46 50	(2)(6)	5 90	4 60
22-Mar-07	Southern Union	Gas	MO	10 50	36 06			4 10
29-Mar-07	Atmos Energy	Gas	TX	10 00	47 90 (5)		5 90 5 85	4 15
15-May-07	Appalachian Power	Electric	VA	10 00	41 11 *		5 85	4 40
17-May-07	Aquita Networks-MPS	Electric	MO	10 25	48 17		5 85	4 40
17-May-07	Aquita Networks-L&P	Electric	MO	10 25	48 17		5 97	4 53
22-May-07	Monongahela Pow /Polomac Ed	Electric	w	10 50	46 07		5 97 5 97	4 23
22-May-07	Union Electric	Electric	МО	10 20	52 22 47 29		5 97 5 97	4 73
23-May-07	Nevada Power	Electric	NV	10 70		(0)(0)	5 97	370
25-May-07	Public Service of New Hampshire	Electric	NH	9 67	47 66 45 00	(2)(6)	5 97	4 13
5-Jun-07	Cascade Natural Gas	Gas	OR	10 10		(2)	5 97	478
13-Jun-07	Northern States Power	Gas	ND	10 75	51 59 32 19 *	(2)	5 97	3 93
15-Jun-07	Entergy Arkansas	Electric	AR	9 90	32 19 ° 60 17	(2)	5 97 5 97	4 28
18-Jun-07	Public Service of Colorado	Gas	co	10 25		(2)	5 99	4 51
22-Jun-07	Appalachian Pow /Wheeling Pow	Electric	w	10.50 10.75	42 88 54 50	(2)(11)	5 99	476
28- Jun-07	Arizona Public Service	Electric	AZ		50 30	(2)	5 99	4 11
29-Jun-07	Yankee Gas Services	Gas	CT NM	10.10	48.00	(2)	5.99	3.54
29-Jun-07	Public Service of New Mexico	Gas	M	9.53				
	Average - All Cases			10.29 %	48.01 %		5.99 %	4.29 %
	Average - Litigated Cases			10.35 %	47.72 %		5.93 %	4.42 %

Prospective Yield on A Rated Public Utility Bonds

Average Spread between Authroized Returns on Common Equity and the yield on 10-year U S Treasury Notes for Litigated Cases

4.42

6 60

11.02

- (1) Actual A rated yield represents the yield of the previous month if the order was issued on or after the 21st of each month, or the yield of two months prior if the order was issued on or before the 20th of each month. For example, the yield for 7/17/07 is the A rated Public Utility yield for July 2007 and the yield for 7/26/07 is the A rated Public Utility yield for August 2007.

 Order followed full or partial stigulation settlement by the parties Decision particulars not necessarily precedent-setting or specifically interim rate implemented prior to the issuance of final order, normally under bond and subject to refund.

 Rate change to be implemented in multiple steps.

 - (2) Order followe (3) Interim rate in (4) Rate change (5) Hypothetical

 - (5) Hypothetical
 (6) Rate change applicable to electric distribution rates only
 (7) Rate change applicable to electric transmission and distribution rates only.
 (8) Indicated rate increase to be phased in over four years, with a 6 88% ROR authorized for 2006, 6 89% for 2007, 7 09% for 2008, and 7 48% for 2009
 (9) Rate increase declined to S114 9 million effective 1/1/07
 (10) From page 1 of Schedule PMA-10
 (11) Return implicit in settlement

 - * Capital structure includes cost-free items or tax credit balances at the overall rate of return

Adjor Rate Case Decisions - January 2005 - December 2006, Published by Regulatory Research Associates, Inc., An SNL Energy Company Regulatory Focus - Regulatory Study, Major Rate Case Decisions - January-June 2007, July 3 2007, Published by Regulatory Research Associates, Inc., An SNL Energy Company
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